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AGRICULTURAL FINANCE Outlook



AGRICULTURAL FINANCE OUTLOOK

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Principal contributors:

National Analysis

Philip T. Allen

John B. Penson, Jr.

Robert D. Reinsel

Regional Analysis

William D. Crowley

Carson D. Evans

J. Bruce Hottel

David A. Lins

Dorwin L. Williams

National Economic Analysis Division
Economic Research Service

U.S. Department of Agriculture
Washington, D.C. 20250

SUMMARY

Most farm operators are expected to close out 1974 in very favorable financial condition as a result of continued high net farm income and relative ease in obtaining loan funds to finance capital purchases and production expenditures.

As of January 1, 1974, total farm sector assets were valued at \$459.8 billion, total debts at \$81.7 billion, and farmers' and landlords' equities at \$378.1 billion. The debt-to-asset ratio on January 1, 1974, was 17.8 percent—down from 19.6 percent on January 1, 1973.

Annual capital formation for the sector in 1974 is forecast at \$12.3 billion, and uses of funds to purchase real estate from owners leaving the sector are estimated at \$12.7 billion. These two uses of funds are expected to be financed by using \$13.2 billion of current income from farm and nonfarm sources and by increasing total debts by \$11.8 billion.

The balance sheet forecast for January 1, 1975, shows total assets reaching \$521 billion, up 13 percent. Total debts are forecast at \$94 billion, up 14 percent. The ratio of debt to assets will therefore rise modestly from 17.8 percent to 18.0 percent.

Although the use of loan funds relative to income is expected to increase as a source of financing, rising real estate prices, high livestock and grain prices, and high prices for used machinery will sharply increase the value of farmers' equity in physical assets again this year.

Realized net farm income for the sector is forecast at \$24 billion for 1974, down \$2 billion from the unprecedented 1973 record. Reasons for the slight decline in prospect include lower farm program payments and rising production expenses. If output of grain and livestock falls below expected levels or exports increase, net income could equal or exceed the level achieved in 1973. On the other hand, should export demand slacken sharply during the latter part of 1974, grain prices would undoubtedly decline and income would be reduced more than indicated.

The projected \$11.8 billion increase in debt excluding CCC nonrecourse loans is a record volume and exceeds the 1973 record by \$2.5 billion. Farmers will readily be able to obtain these funds.

Rural banks experienced a rapid growth in deposits in 1973 and can be expected to increase their funds available for lending in proportion to deposit growth.

PCA's and the Federal land banks can be expected to sharply increase their demands on central money markets and farm real estate sellers and other individuals probably will increase their lending in line with the rise in real estate prices. On the other hand, FHA is restricted by law to \$700 million in direct, insured and guaranteed loans. Thus, its share of the increase is expected to be relatively small. Also, insurance companies depend on repayments of outstanding policy and mortgage loans, increases in income, and reallocation of investment portfolios for funds. Their contributions to the increase in farm sector lending will be relatively low.

Regionally, prospects in 1974 are generally favorable for increased production and only slight income declines. Planted acreages may rise 6 percent

indicating farmers expect sufficient supplies of fuel, fertilizer, credit and other critical items. Milk producing areas of the Northeast and the Lake States should prosper. Milk prices have advanced strongly and feed costs should moderate as the year wears on. Cattle feeders in the Plains, the Corn Belt, and other feeding areas suffered losses in parts of 1973 and currently face unfavorable feed and cattle price ratios. However, they may find feeder cattle prices and feed costs in a better balance with expected fed cattle prices late in 1974.

Farmers in all regions were reported in excellent financial condition at the end of 1973 and will be able to obtain the huge volume of credit they need for farming in 1974, both real estate and other, probably at interest rates no higher than in 1973.

REVIEW OF 1973

Short-term interest rates on new issues of government securities in the national money markets nearly doubled in the first 8 months of 1973 and then eased somewhat. Rates on 3-month Treasury bills rose from nearly 5 percent at the beginning of the year to a high of nearly 9 percent in August (table 1). They then declined but subsequently rose to fluctuate between 7 and 8 percent in the remaining months of the year. Long-term rates on new issues also rose during the year. Rates on long-term Government bonds reached nearly 7 percent in August, almost 1 percentage point higher than at the start of the year (table 1). These rates eased somewhat after August and in December averaged 6.5 percent.

Table 1.—Average monthly interest rate on new issues of Government securities, selected months, 1972 and 1973

Item	1972		1973		
	Aug.	Dec.	Jan.	Aug.	Dec.
	<i>Percent</i>				
Government securities ^a					
Short-term (3-month bills)	4.0	5.1	5.3	8.7	7.4
Long-term bonds . . .	5.5	5.6	5.9	6.8	6.5

^aFederal Reserve bulletin.

Increases in domestic incomes and production and large capital investments by businesses contributed to greater credit demands and to higher interest rates. Funds for financing residential housing became much tighter and rates rose during the year. In the last months of the year, interest rates, both short- and long-term, fluctuated more than normal, probably reflecting the economic uncertainties related to the energy situation. The availability and cost of fuels, particularly as they affect attitudes about business

investments and spending by consumers, were expected to have an important influence on credit markets in 1974.

Rising interest rates in the central money markets in 1973 were soon reflected in rates charged by farm lenders such as the production credit associations (PCA's) and the Federal land banks, which obtain funds through the sale of securities in the money markets. In contrast, rates charged by lender groups further removed from the influence of the urban centers changed less quickly, as usual. These include many of the smaller commercial banks, and probably some individuals such as sellers of farmland under contract. However, by the yearend lenders for whom data are available had increased rates by about ½ percentage point on farm real secured loans and ½ to 2 percentage points on other loans.

Table 2 illustrates the contrasting changes in rates charged by the lender groups as they are influenced by the lender's relation to the major money markets. Thus, rates charged by PCA's and large commercial banks increase more quickly and more sharply than rates charged by rural banks. Similarly, when rates decline they typically decline more slowly and by smaller amounts in rural banks.

With interest rates increasing during 1973 and with farmers using larger amounts of borrowed funds, the interest charges on farm debt were substantially greater. Farm interest payments for 1973 are estimated at \$5.1 billion, 19 percent above 1972.

Prices received by farmers in 1973 increased much more rapidly than prices paid. The index of prices received by farmers for all farm products on an annual average increased 37 percent over the 126 (1967=100) for 1972. The index of prices received for crops advanced 43 percent, compared with 33 percent for livestock. The index of prices paid, interest, taxes and wage rates increased 14 percent.

Table 2—Interest rates on farm loans, selected lenders and months, 1972-74¹

Loan type and lender	1972		1973		1974
	Jan.	July	Jan.	July	Jan.
	Percent	Percent	Percent	Percent	Percent
Non-real estate secured:					
Production credit associations					
Production purposes	7.4	7.1	7.4	8.2	9.3
Rural banks ²					
Short-term—Minneapolis	8.1	8.0	8.1	8.2	8.6
Intermediate—Minneapolis	8.2	8.1	8.2	8.3	8.7
Feeder cattle—Chicago	7.5	7.4	7.5	7.7	8.3
Larger commercial banks ³					
Feeder cattle	7.5	7.3	7.7	8.6	9.7
Other production purposes	7.6	7.6	7.9	8.4	9.2
Real estate secured:					
Rural banks—Minneapolis ²	8.0	7.9	7.9	8.1	8.5
Federal land banks	7.6	7.4	7.4	7.4	7.8
Life insurance companies	8.3	8.3	8.3	8.5	9.0

¹ Average rates for rural banks are for the first week of the month shown. Rates for the PCA and FLB are averages for the month. Life insurance rates are averages for the previous quarter.

² Rural banks serving agriculture in the Chicago and Minneapolis Federal Reserve Districts. ³ From the G.10 release by the Federal Reserve System. Rates are averages for the months indicated.

Total 1973 farm output was up about 4 percent over 1972. The index of crop production was up to 119 (1967=100) for 1973, compared with 113 for 1972. The index for all livestock products declined slightly. World demand for agricultural products increased, with the total value of U.S. agricultural exports in calendar year 1973 rising to \$17.7 billion, compared with \$9.4 billion in 1972.

Realized gross farm income for 1973 rose to \$90.5 billion, up more than 30 percent over 1972. Farm production expenses were also up slightly more than 30 percent, with total net farm income (including inventory charge) increasing to a record \$26.9 billion from \$20.3 billion in 1972. Realized net farm income per farm increased to \$9,193 in 1973, one third above 1972.

Debt Not Secured by Farm Real Estate in 1973

Demand for non-real estate secured farm loans was strong in 1973. New loans less repayments in 1973 were \$4.4 billion (fig. 1)—a larger increase than in 1972. Total debts not secured by real estate by all lenders excluding CCC loans reached \$41.7 billion on January 1, 1974—12 percent higher than the previous year (fig. 2).

The strong demand for borrowed funds in 1973 reflected producers' needs to finance much higher priced feed and livestock inventories plus generally rising production costs and additional land brought into production. Crop acreages were about 8 percent greater than in 1972. Production expenses in 1973 were 31 percent higher than the previous year. Demand for funds was also stimulated by increases in farm equipment purchases. The need to replace worn-out or obsolete items plus sharply higher net income in 1973 encouraged farmers to reduce their income taxes through investment credit and higher

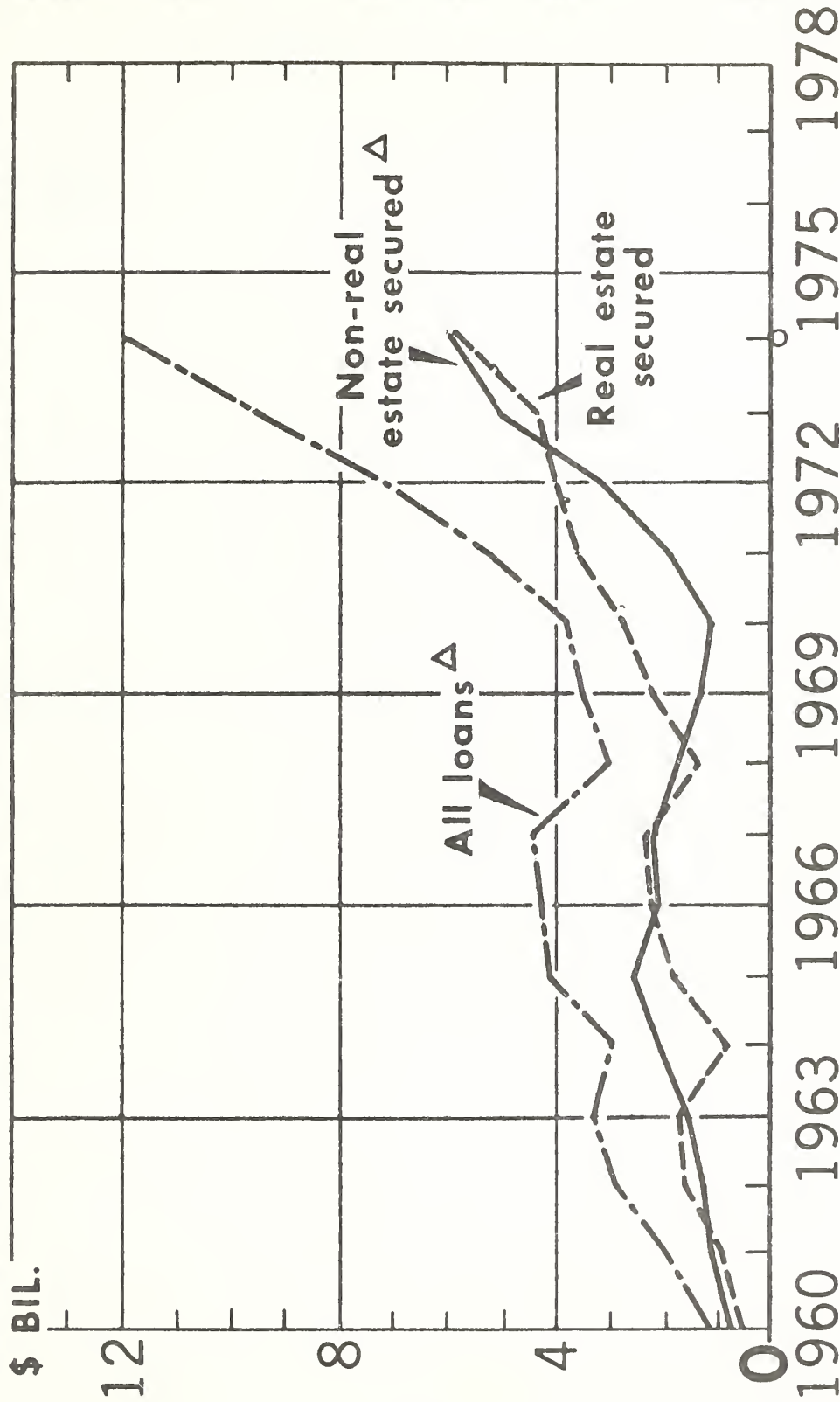
depreciation deductions. Holdover of crops for sale in the next tax year and possible gains from price increases also contributed to a high level of debt carryover from 1973 to 1974.

Regional increases in non-real estate secured debt attest to the strong demand for loan funds throughout the United States. Regional increases in the level of this debt at commercial banks, FHA, and the PCA's at midyear varied from 19.8 percent in the Southern Plains to 9.3 percent in the Lake States (fig. 3).

Although demand for non-real estate secured loans continued strong in 1973, farm operators in general experienced little difficulty in obtaining funds. Interest rates, which began to rise in the first half of the year, rose steeply in the last half. Nevertheless, funds were generally available and loans expanded sharply at banks and PCA's. Commercial banks in most rural areas had sufficient reserves to meet the needs of most of their borrowers. PCA's continued to obtain adequate funds via the Federal intermediate credit banks and their access to the central money markets.

An exception to the generally adequate availability of funds in 1973 was experienced by some large commercial feedlot operators and in some cases by other large operators whose loan requests exceeded the loan limits of the smaller banks. By August 1973 prices of 600- to 700-pound feeder cattle at Kansas City had reached an average of \$62.00 per hundredweight. Feed grain prices were also at record levels. There was increased use of correspondent banks or other arrangements for outside sources of funds to handle overline loan requirements. A doubling of loan requirements to handle the same volume of cattle was not uncommon. Loan-to-deposit ratios at the larger banks were particularly tight

ANNUAL NET FLOW OF FARM LOAN FUNDS*



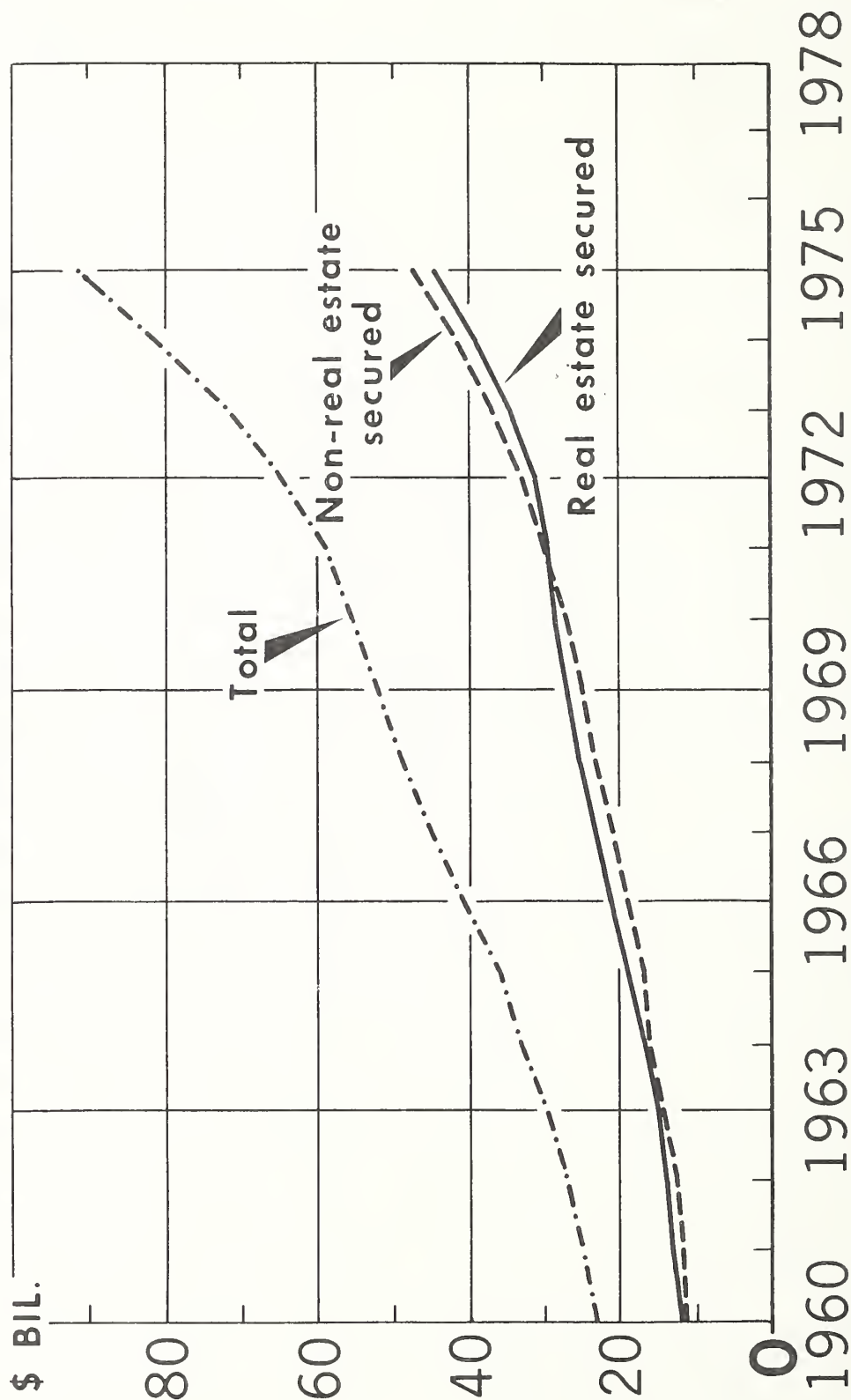
*NEW LOANS MADE LESS REPAYMENTS DURING YEAR, 48 STATES.
 Δ EXCLUDES CCC LOANS WHICH DECLINED \$0.5 BILLION IN '72 AND \$1.3 BILLION IN '73.
 O 1973 PRELIMINARY, 1974 ESTIMATE.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3792-74 (3) ECONOMIC RESEARCH SERVICE

Figure 1

FARM LOAN FUNDS OUTSTANDING*



* JANUARY 1. 48 STATES. EXCLUDES CCC LOANS. 1974 PRELIMINARY, 1975 ESTIMATE.

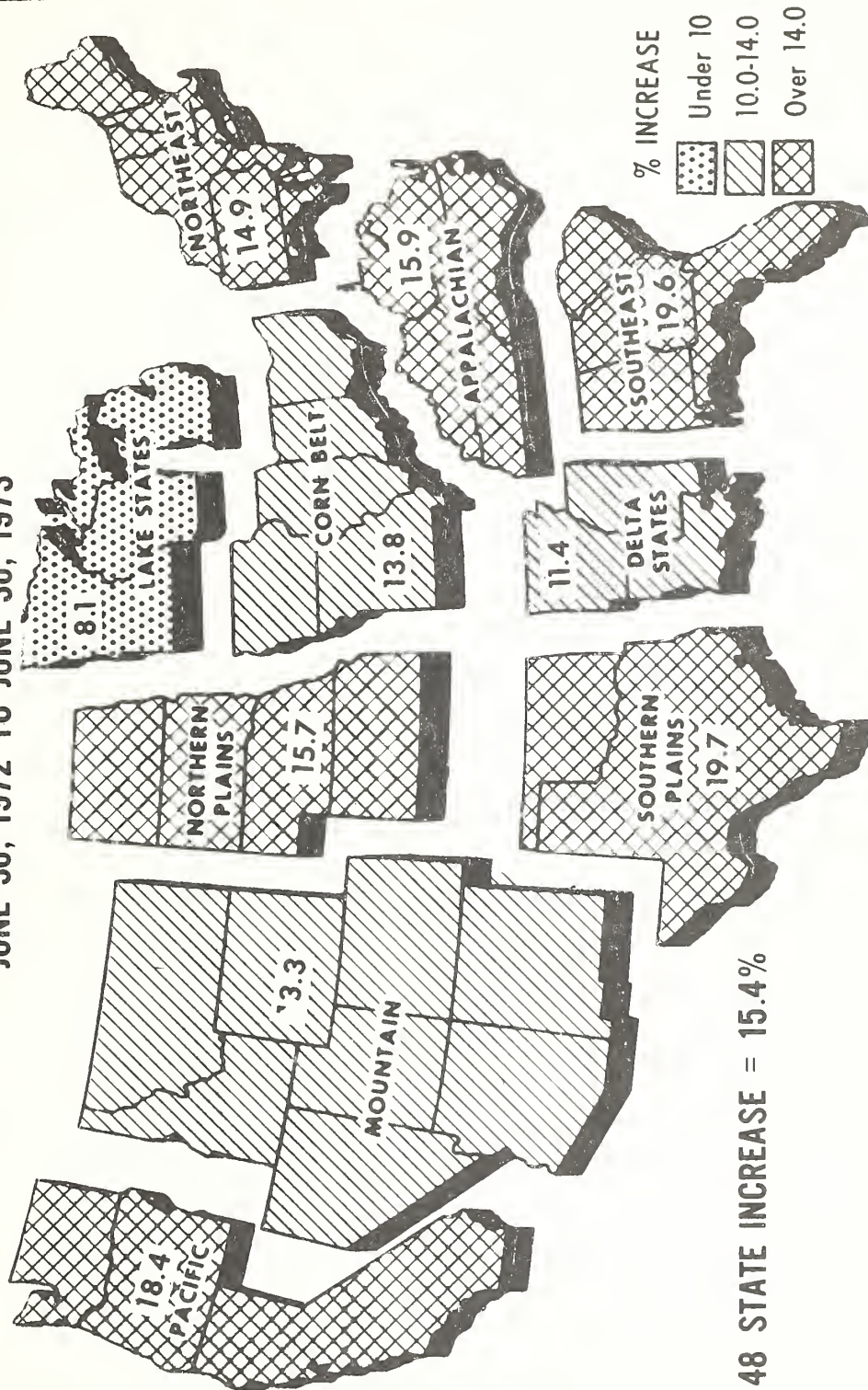
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Figure 2

INCREASE IN NON-REAL ESTATE SECURED FARM LOANS HELD BY ALL OPERATING BANKS AND FEDERALLY SPONSORED AGENCIES

JUNE 30, 1972 TO JUNE 30, 1973



U.S. DEPARTMENT OF AGRICULTURE

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Figure 3

Table 3—Non-real estate secured farm debt held by major institutional lenders, and by "nonreporting" creditors, 1971-73^a

Lenders	Debt outstanding, Dec. 31			Percent change	
	1971	1972	1973	1971-72	1972-73
	Million dollars	Million dollars	Million dollars	Percent	Percent
All operating banks	12,487	14,303	16,700	14.5	16.7
Production credit associations ^b	6,315	6,858	8,167	8.6	19.1
Farmers Home Administration ^c	769	779	900	1.3	15.5
Total, institutional lenders	19,571	21,940	25,757	12.1	17.5
Nonreporting creditors	13,700	15,360	15,900	12.1	3.5
Total	33,271	37,300	41,657	12.1	11.8

Note: Preliminary. Excludes Commodity Credit Corporation Loans.

^aEstimates of nonreporting creditors have been made on a different basis for Jan. 1, 1974. The entire series is in process of revision. ^bIncludes Federal Intermediate Credit Bank loans to

institutions other than production credit associations. ^cIncludes all FHA direct and insured farm loans to individuals not secured by farm real estate.

during July and August, and some banks in feedlot areas asked borrowers to stay within established lines of credit.

Commercial banks continued to supply a substantial part of the non-real estate secured loan funds to agriculture. On December 31, 1973, the amount of debt outstanding at banks was an estimated \$16.7 billion—17 percent greater than a year earlier (table 3). The proportion of funds supplied by banks was 65 percent of the total for the three institutional lenders shown. Banks, PCA's, and the FHA in 1973 provided a larger share of the financing usually furnished by merchants and dealers.

Debt outstanding for PCA's, the second largest source of production funds from institutional lenders, was \$8.2 billion at the year's end, 19 percent greater than a year earlier. PCA financing amounted to about 30 percent of that supplied by the three institutional lenders. At the close of 1973, the Farmers Home Administration (FHA) had debt outstanding of about \$900 million, 16 percent above year-earlier levels.

The FHA is an agency of the Department of Agriculture which has as one of its purposes, assisting qualified farmers to obtain loan funds when they would not be able to obtain them otherwise. In recent years FHA farmer programs have been altered to better adapt the FHA's activities to the farm sector's borrowing needs, and to permit it to serve more borrowers by sale of insured loan notes and by joint lending arrangements with other lenders. These changes are summarized below for both farm operating loans and farm ownership loans (table 4).

During the past year most of FHA farm operating loans were handled on an insured loan note basis. This procedure had been in effect for some time for the majority of farm ownership loans. In fiscal years 1972 and 1973 no direct farm ownership loans were made, all were insured.

Insured loan notes are in effect "sold" to other lenders or investors. The FHA continues to service the loans, to make collections, and to pay interest and principal to the investors.

Another procedure for expanding FHA coverage is by obtaining the participation of other lenders in making loans. Sometimes FHA agrees to subordinate its claims to those of other lenders. At other times, there is no formal agreement but each lender is responsible for the credit he advances to the borrower. In 1973, as shown in table 4, about one-fourth of the loans involved an agreement in which FHA's claims were to be subordinated to others. This type of arrangement has made lenders more willing to participate in the higher risk loans.

Table 4.—Loans made to farm operators receiving Farmers Home Administration loans, by type of loan and source, fiscal years 1972 and 1973

Type of loan	Year ending June 30	
	1972	1973
	Million dollars	Million dollars
Farm operating loans: ¹		
Total loans, FHA and participating lenders	547.4	697.6
FHA, total	337.2	454.6
Insured	0	403.4
Direct	337.2	51.2
Participating lender, total	210.2	243.0
Subordinated to by FHA	48.6	54.7
Not subordinated	161.6	188.3
Farm ownership loans: ²		
Total loans, FHA and participating lenders	486.0	658.3
FHA, total	348.8	400.4
Insured	348.8	400.4
Direct	0	0
Participating lender, total	137.2	257.9
Subordinated to by FHA	47.2	60.5
Not subordinated	90.0	197.4

¹ Loans not secured by farm real estate. ² Loans secured by farm real estate.

Debts owed to "nonreporting creditors" are estimated to have increased only 3.5 percent in 1973 in contrast to the rise of 17.5 percent for the debts farmers owed to major institutional lenders (table 3).¹ This sharp divergence in rates of change between the two groups was unusual. Typically, when farmers' demands for loan funds expand, the various lenders are called upon to share about equally percentage-wise in providing greater volumes of loans. But in 1973 the sellers of farm machinery, trucks, fertilizer, and some other inputs were in a situation where demand for their products far outstripped the supply. Thus, many farm retailers curtailed the provision of loan funds that had previously been used as a device to encourage sales.

Specific information was obtained from one segment of the retail farm sales industry—the loan funds provided by six farm machinery manufacturers, or their lending subsidiaries, to finance the retail sales of their products. These six companies produce more than nine-tenths of all farm tractors. Their retail finance activity during 1970-73 is shown in table 5. The volume of loan funds supplied by these organizations expanded sharply in 1972 and then declined sharply in 1973. The volume of loan funds outstanding at the end of the year was approximately at the 1970-71 level.

Table 5.—Loan funds supplied by six large full-line machinery manufacturers for purchases of farm machinery and equipment

	<i>Loans outstanding end of year</i>	
	<i>Million dollars</i>	<i>Percent (1970=100)</i>
1970	1,170	100
1971	1,179	101
1972	1,499	128
1973	1,210	103
	<i>Loans made during year</i>	
	<i>Million dollars</i>	<i>Percent (1970=100)</i>
1970	928	100
1971	936	101
1972	1,329	143
1973	1,091	118

¹Preliminary figures. Final figures are to be published later including data for earlier years. Excludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years—Oct. 31 for 4 companies, Dec. 31 for 2 companies.

Based on these figures and on assumptions about lending by the other components of this nonreporting

¹"Nonreporting creditors" are those whose lending activities are not reported to any Federal agency on a periodic basis. This group includes merchants and dealers, landlords and other individuals, some lending institutions with small amounts of farm loans, and others.

group, it is estimated that the total loan funds of the nonreporting group actually increased slightly, about 3.5 percent, in 1973 rather than declining as indicated for the farm machinery group.

The reasons for the estimated slight rise rather than a sharp decline are that (1) loan funds supplied by farm machinery companies do not make up the total amount supplied by merchants and dealers, and (2) there are other components in the nonreporting group in addition to merchants and dealers.

The retail farm machinery dealers probably did not curtail their customer credits as greatly as indicated by the drop shown by their lending subsidiaries. Retail machinery dealers have other sources of customer funds. They borrow on their own account from local banks or other such sources. It is believed that the retail machinery dealers would have drawn on these sources of loan funds to a greater extent.

The nonreporting group includes many different groups of lenders besides farm machinery dealers. Some of these dealers—fertilizer and feed sellers, for example—were felt to have curtailed their provision of funds much as farm machinery sellers curtailed theirs. But some dealers were thought to have expanded their supply of loan funds—such as automobile sellers and livestock dealers. "Individuals" and "other lending institutions" are other components of the nonreporting group whose lending also was thought to have expanded in the year.

Farm Real Estate and Farm Real Estate Secured Debt in 1973

Farm real estate values surged up 21 percent in the year ended November, 1973—the strongest rate of increase recorded since 1920. Increases were greatest in Colorado at 33 percent and lowest in Louisiana at 10 percent. The rapid rise in land values appears to be the result of optimism over the future of the Nation's agriculture and farm earnings. During 1973 farm exports increased sharply and prices for farm commodities rose much more rapidly than the cost of inputs. Thus, net income rose to record levels. High income combined with favorable expectations for future years and readily available but high cost loan funds stimulated real estate market demand.

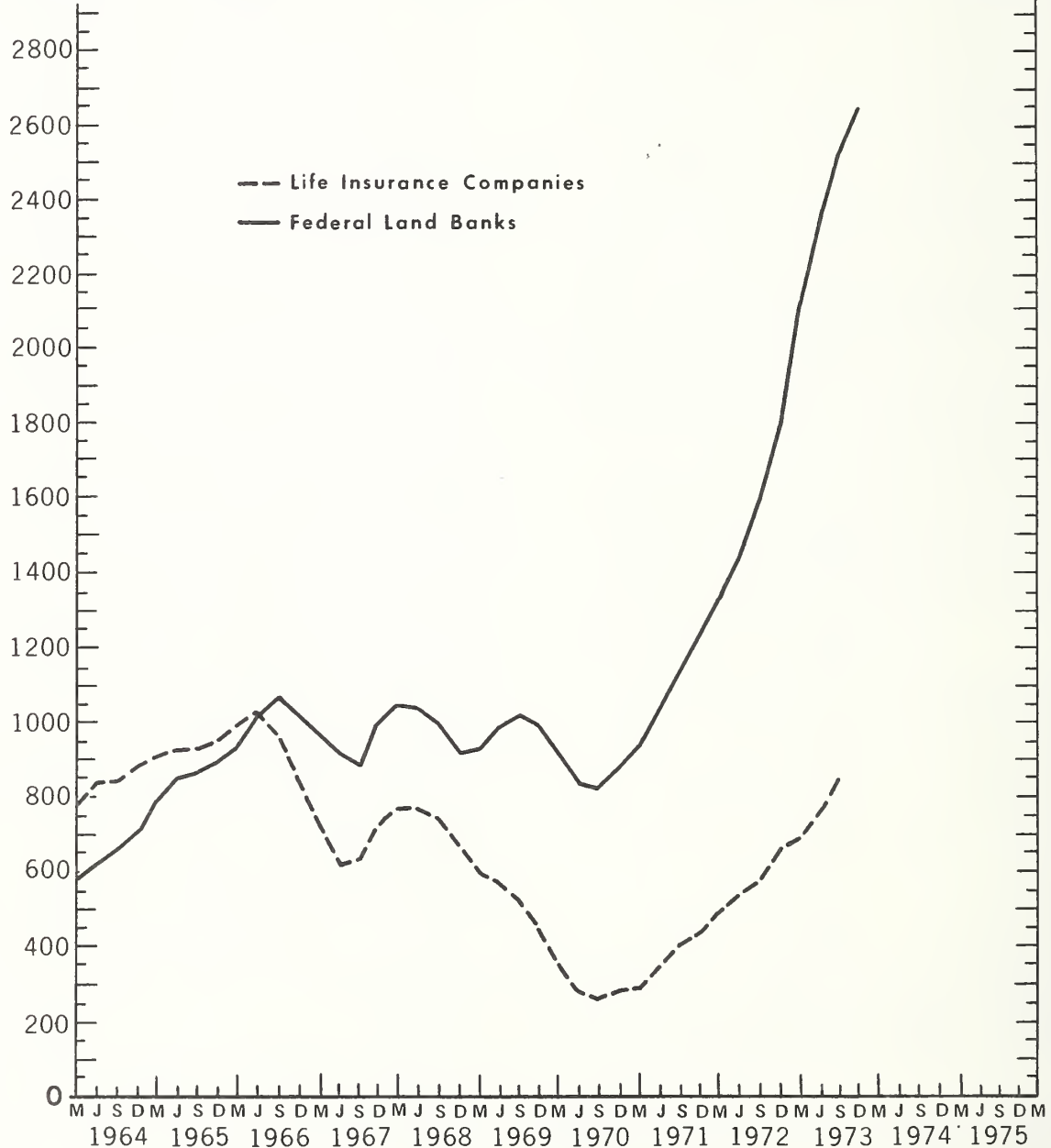
During 1973, debt secured by farm real estate increased by about \$5 billion (14 percent) reaching \$39.5 billion (figures 1 and 2). Repayment of debt increased sharply but new lending far outpaced repayments for most lenders.

The growth in farm real estate debt has not been evenly distributed among lenders in recent years. During 1973, the Federal land banks accounted for nearly 40 percent of the increase, life insurance companies about 8, commercial banks 13 and FHA about 4. The remaining 35 percent is attributed to sellers and other lenders.

FARM MORTGAGE LENDING NEW MONEY LOANED BY LIFE INSURANCE COMPANIES AND FEDERAL LAND BANKS

FOR YEARS ENDING MARCH 31, JUNE 30, SEPT. 30, AND DEC. 31, 1964-1973

MILLION DOLLARS



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 474-74 (2) ECONOMIC RESEARCH SERVICE

Figure 4

New money loaned by the Federal land banks totaled over \$2.6 billion in 1973 (figure 4), up from \$800 million in 1970. In contrast, life insurance companies increased their loans from \$250 million in 1970 to \$840 million in 1973, a substantial percentage increase but far below the volume achieved by the Federal land banks.

Although Federal land banks supplied the major part of the increase in all real estate secured debt, farm real estate sellers remained the primary source of funds to finance farm real estate transfers in 1973, providing about 41 percent of all loan funds for this purpose. Federal land banks provided about 28 percent and commercial banks and insurance companies about 10 percent each. The remaining 11 percent was from FHA and other lenders. The ratio of debt to purchase price on real estate purchase loans has increased in recent years and currently debt averages about 78 percent of the market value. Primary factors in the recent increases in the ratio of debt to value are the willingness of FHA to accept a subordinated position, the ability of the Federal land banks to loan a larger percentage of market value, and the low equity requirement on land contracts and mortgages given by real estate sellers (table 6).

The percentage of land buyers incurring mortgage or land contract debt to acquire farm real estate increased from 44 percent in 1944 to 86 percent in 1973 (figure 5). During the same period, the ratio of debt to purchase price rose from 57 to 78 percent (figure 6). These trends seem to imply a continuous shift in the structure of the market for farm real estate and for real estate secured loan funds. Farmers seem more willing to incur debt and to use financing more frequently. Also, lenders have increased the percentage of any transfer they are willing to finance. The result has been an even more rapid growth in farm real estate secured debt than in the value of farm real estate.

Financing Cash Flows of Capital in 1973

Annual Capital Formation

Annual capital formation in the farm sector encompasses both new investments in real estate and

nonreal estate assets plus net additions to cash balances. Table 7 shows the level of capital formation over the 1960-73 period. Annual capital formation totaled \$11 billion in 1973, approximately 24 percent above 1972 and 107 percent greater than 1963.

The level of capital improvements to real estate assets in current dollars changed little over the 1960-73 period. Capital improvements to real estate assets were \$1.3 billion in 1963. Ten years later they had risen to \$1.8 billion.

On the other hand, the cost of farm machinery and motor vehicle purchases and net additions to household furnishings and equipment have more than doubled since 1963. In 1973 they totaled \$7.5 billion, compared with \$3.6 billion in 1963. These forms of annual capital formation were also some 19 percent greater than the corresponding flows of capital in 1972.

Net additions to farm inventories of crops and livestock in 1973 approached \$1.35 billion, while net additions to cash balances (demand deposits and currency) remained at 1972 levels of \$.3 billion.

Real Estate Transfers

Funds used to purchase real estate assets from discontinuing proprietors also represent a cash flow of capital in the farm sector. In 1973, this flow of funds was \$10.6 billion, compared with \$8.5 billion in 1972. This represents an increase of almost 25 percent over 1972 and is more than double that of 10 years ago.

Much of the cash flow of capital in the farm sector in 1973 was in response to the record level of realized net farm income and resulting increased returns on investment. In addition, interest rates did not rise substantially until the second half of 1973 and loan funds in general were available for those who were willing and able to pay the going rate of interest. The increase in the level of net additions to farm inventories appears, in part, to be the result of farmers postponing crop sales until after the first of the year for tax and possible price appreciation purposes.

Table 6—Financing Land Transfers: Debt-to-price ratios by type of lender, 48 States, October 1973¹

	Seller		Other individual	Commercial bank	Insurance company	Federal land bank	Farmers Home Administration	Others	All lenders
	Land contract	Mortgage							
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Total debt-to-price ratio:									
When only primary debt incurred	73.8	74.4	66.4	67.4	64.3	72.3	87.0	80.3	72.1
When primary and secondary debt incurred:									
Primary lender specified	73.8	79.1	70.8	70.7	70.4	75.9	87.8	80.8	74.7
Secondary lender specified	² 0	79.6	84.0	90.1	² 0	² 0	90.9	86.5	

¹ Data furnished by respondents to October 1973 Farm and Rural Land Market Survey. ² Extend primary debt only.

PERCENTAGE OF LAND TRANSFERS ON WHICH DEBT WAS INCURRED

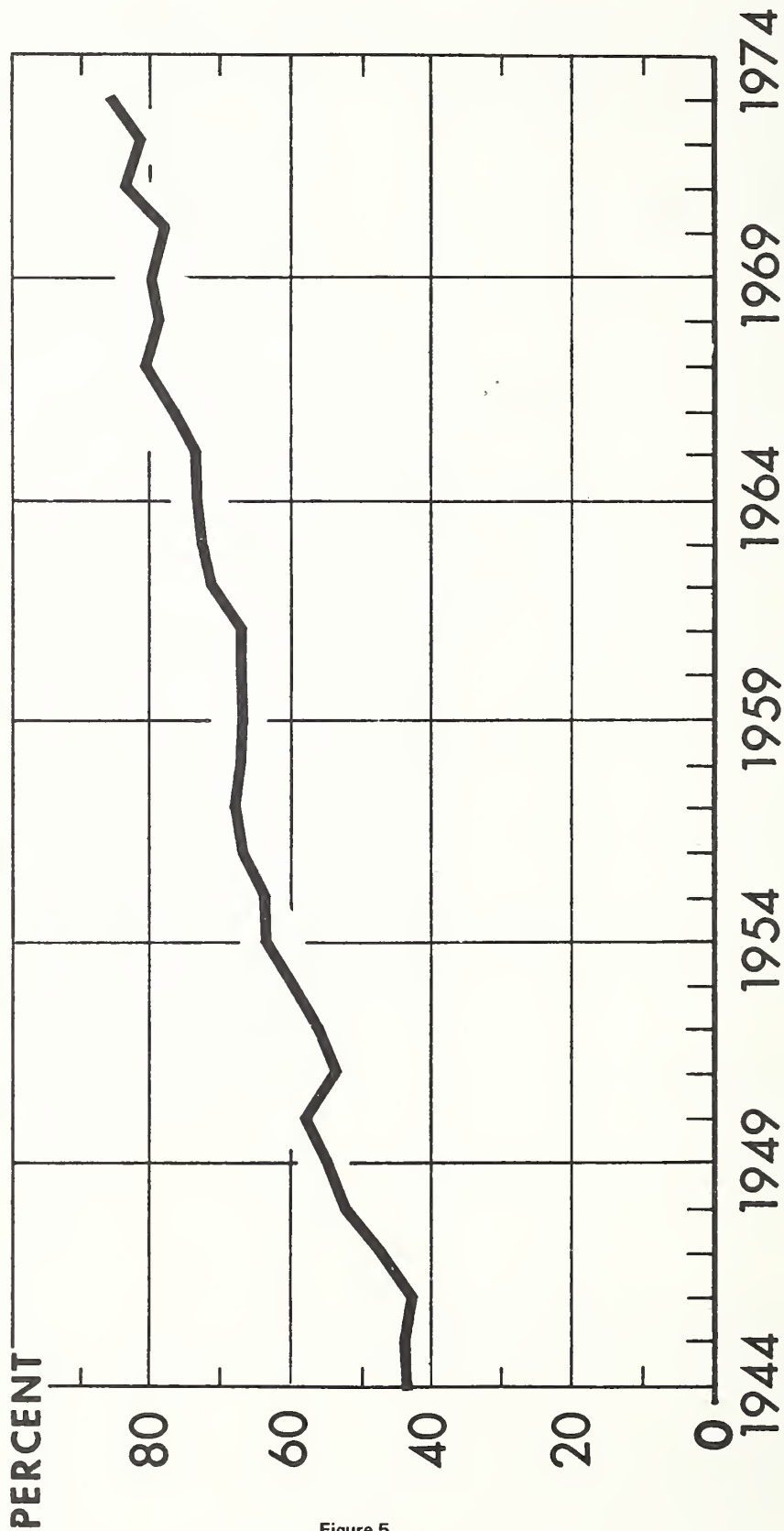


Figure 5

FARM REAL ESTATE DEBT AS A PERCENTAGE OF MARKET VALUE ON TRANSFERS WITH DEBT

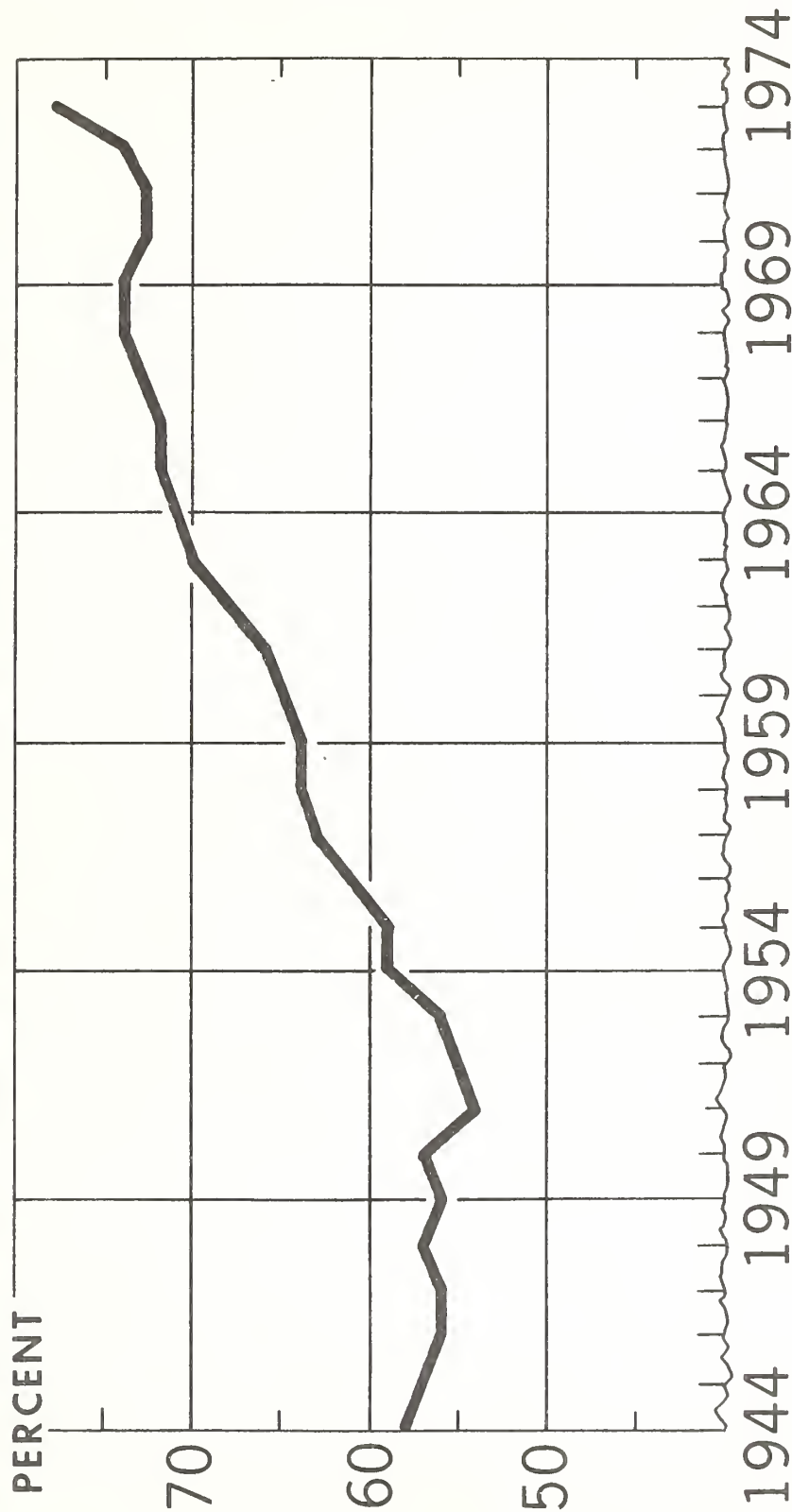


Figure 6

Sources of Financing

Funds used to finance annual capital formation and purchase real estate assets from discontinuing proprietors in 1973 totaled \$21.6 billion. Of this amount, \$12.2 billion or approximately 56 percent was financed by cash income from farm and off-farm sources and savings (table 7). This percentage is approximately equal to that experienced in 1972 and continues to reinforce the downward trend in the percentage of flows of capital financed by income and savings over the 1960-73 period (figure 7).

The remaining \$9 billion in cash flows of capital in the farm sector during 1973 were financed by farm borrowings. For example, the net flow of loan funds secured by farm real estate assets financed nearly 23 percent of the cash flow of capital, making 1973 second only to 1964 in percentage financed by this external source of funds over the 1960-73 period. The net flow of loan funds not secured by farm real estate assets, on the other hand, financed approximately 20 percent of funds used for capital acquisition in 1973. This represents the lowest percentage since 1968 as farmers apparently steered away from loan funds not secured by farm real estate assets with their relatively higher interest rates.

Financial Position of the Farm Sector

Portfolio Distribution

The value of physical and financial assets in farmers' portfolios increased substantially during 1973 as did the volume of loan funds outstanding. The percentage distribution of these three major components of investment portfolios, however, changed relatively little.

Table 8 shows that the value of real estate assets in the farm sector, for example, increased some 20 percent during 1973, giving a current market value at the end of the year of \$309.7 billion. Similarly, the value of nonreal estate assets increased some 23 percent from January 1, 1973, to January 1, 1974. Physical assets in the farm sector valued in current dollars, therefore, were \$431.2 billion on January 1, 1974. This was approximately 21 percent greater than a year earlier and 105 percent greater than January 1, 1964.

Financial assets held by farmers are estimated to total \$28.6 billion as of January 1, 1974, or about 8 percent higher than a year ago. Of this total, currency and commercial bank deposits are estimated to reach \$15.2 billion while other financial assets such as U.S. savings bonds and investments in farmer cooperatives are estimated at \$13.4 billion.

Total debt claims on farm assets are estimated at \$81.7 billion as of January 1, 1974, or some 10 percent

greater than a year earlier and 134 percent greater than 10 years earlier. Loan funds secured by farm real estate assets increased by some 14.4 percent over January 1, 1973, as uses of funds for capital improvements and purchases of real estate assets from discontinuing proprietors rose to record highs. Loan funds not secured by real estate assets, other than CCC nonrecourse loans, rose about 12 percent to \$41.7 billion. This increase was caused, to a large extent, by the record level of uses of funds to purchase machinery and motor vehicles in 1973 as well as the unusually high investment in farm inventories carried over into 1974. CCC nonrecourse loans secured by crops fell during 1973 from \$1.8 billion at the beginning of the year to \$0.5 billion at the end of the year.¹

Equity claims on farm assets reached \$378 billion by January 1, 1974, up nearly 25 percent from a year earlier and almost double that of 10 years ago. The ratio of debt claims to total assets was 17.8 percent, 1.8 percentage points lower than January 1, 1973, but 2.6 percentage points greater than 10 years earlier. The ratio of debt to equity claims on farm assets was 21.6 percent, 2.7 percentage points lower than that recorded one year earlier, but 3.6 percentage points higher than 10 years earlier. Thus, the relative equity position of farmers in general has improved from that of January 1, 1973, but is less than 10 years ago.²

Debt Repayment Capacity

The ratio of net income from farm sources to the volume of loan funds outstanding is used here to evaluate the capacity of farmers to repay their outstanding debt commitments from current net farm earnings. This ratio for the end of 1973 was 31.3 percent, or some 3.6 percentage points higher than at the end of 1972. A ratio of 37.8 percent at the end of 1963, however, is 6.5 percentage points greater than the ratio at the end of 1973. Thus, farmers are in a relatively stronger position going into 1974 to repay their outstanding debt commitments out of current net farm earnings due to the relatively higher levels of realized net farm income. Nevertheless, the capacity to repay his debt out of current net farm earnings is lower than it was 10 years ago.³

²These measures are only general indicators of the farmer's leverage or equity position. Many farmers have substantially higher ratios while still others have no debt at all.

³To the extent that rising off-farm income of farm families supplements a major portion of the income of those farms with debt, this decline will become less significant.

FINANCING ANNUAL CASH FLOWS OF CAPITAL IN THE FARM SECTOR

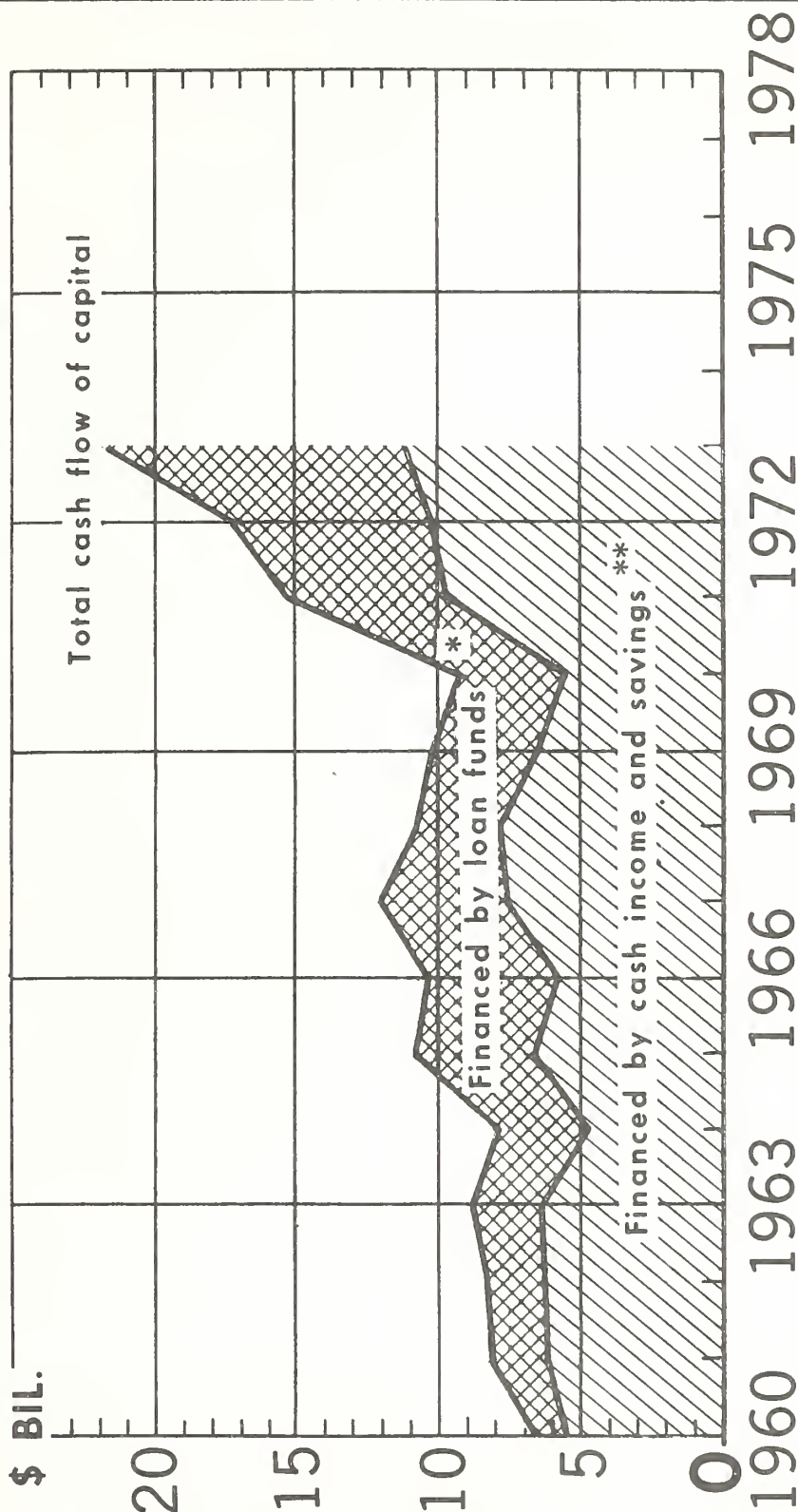


Figure 7

* NET FLOW OF LOAN FUNDS USED TO FINANCE ANNUAL CAPITAL FORMATION AND PURCHASES OF REAL ESTATE ASSETS FROM DISCONTINUING PROPRIETORS.

** CASH FLOW OF INCOME FROM FARM AND OFF-FARM SOURCES AND SAVINGS USED TO FINANCE ANNUAL CAPITAL FORMATION AND PURCHASES OF REAL ESTATE ASSETS FROM DISCONTINUING PROPRIETORS.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 509-74 (3) ECONOMIC RESEARCH SERVICE

Table 7.—Financing annual capital formation and real estate transfers in the farm sector, 1960-73

Item	1960	1961	1962	1963	1964	1965	1966
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Uses for funds for:							
Capital improvements to real estate	1.32	1.30	1.28	1.25	1.23	1.22	1.25
Purchases of machinery and motor vehicles	2.71	2.93	3.06	3.62	3.70	4.22	4.75
Net additions to household furnishings	-.41	.30	-.10	0.00	-.29	0.00	-.30
Net additions to farm inventories	.34	.34	.60	.62	-.82	.99	-.08
Net additions to cash balances	-.40	0.00	.10	-.20	.20	.10	0.00
Annual capital formation	3.56	4.87	4.94	5.29	4.02	6.53	5.62
Purchases of real estate assets from discontinuing proprietors	3.04	3.25	3.35	3.46	3.87	4.30	4.64
Total cash flow of capital	6.60	8.12	8.29	8.75	7.89	10.83	10.26
Sources of funds used to finance total cash flows of capital:							
Cash flow of income and savings ^b	5.50	6.12	5.39	5.45	4.79	6.73	5.96
Net flow of loan funds:							
Real estate secured loan funds ^c	.70	1.10	1.30	1.60	2.10	2.30	2.10
Non-real estate secured loan funds ^d	.40	.90	1.60	1.70	1.00	1.80	2.20
Total cash flow of funds used	6.60	8.12	8.29	8.75	7.89	10.83	10.26
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Percentage of total cash flow of capital financed by:							
Cash flow of income and savings ^b	83.33	75.37	65.02	62.28	60.71	62.14	58.09
Net flow of loan funds:							
Real estate secured loan funds ^c	10.61	13.55	15.68	18.29	26.62	21.24	20.47
Non-real estate secured loan funds ^d	6.06	11.08	19.30	19.43	12.67	16.62	21.44
Total cash flow of funds used	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Use of funds for:							
Capital improvements to real estate	1.31	1.29	1.39	1.33	1.44	1.51	1.77
Purchases of machinery and motor vehicles	5.19	4.73	4.61	5.04	5.11	6.10	6.56
Net additions to household furnishings	.41	.21	-.11	-1.07	1.47	.23	.98
Net additions to farm inventories	.66	.14	.07	.12	1.70	.67	1.35
Net additions to cash balances	.10	.20	.10	.10	.10	.30	.30
Annual capital formation	7.13	6.57	6.06	5.52	9.82	8.81	10.96
Purchases of real estate assets from discontinuing proprietors	4.40	4.30	4.02	3.83	5.48	8.52	10.64
Total cash flow of capital	12.07	10.87	10.08	9.35	15.30	17.33	21.60
Sources of funds used to finance total cash flows of capital:							
Cash flow of income and savings ^b	7.57	7.97	6.58	5.55	9.90	10.03	12.20
Net flow of loan funds:							
Real estate secured loan funds ^c	2.20	1.60	1.30	1.10	1.80	3.20	5.00
Non-real estate secured loan funds ^d	2.30	1.30	2.20	2.70	3.60	4.10	4.40
Total cash flow of funds used	12.07	10.87	10.08	9.35	15.30	17.33	21.60
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Percentage of total cash flow of capital financed by:							
Cash flow of income and savings ^b	62.71	73.32	65.27	59.36	64.71	57.87	56.48
Net flow of loan funds:							
Real estate secured loan funds ^c	18.23	14.72	12.90	11.76	11.76	18.47	23.15
Non-real estate secured loan funds ^d	19.06	11.96	21.83	23.53	23.53	23.66	20.37
Total cash flow of funds used	100.00	100.00	100.00	100.00	100.00	100.00	100.00

^aPreliminary estimate of flows of funds in farm sector.^bFrom farm and off-farm sources including income transfers from nonfarm landlords. ^cLoan funds secured by farm real estateassets. ^dLoan funds not secured by farm real estate assets. Does not include CCC nonrecourse loans.

Table 8.—Balance sheet for the farm sector, January 1, 1961-74

Item	1961	1962	1963	1964	1965	1966	1967
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Physical assets:							
Real estate assets	131.8	138.0	143.8	152.1	160.9	172.2	181.7
Non-real estate assets ^b	54.6	56.8	59.0	58.3	56.9	61.6	64.4
Total physical assets	186.4	194.8	202.8	210.4	217.8	233.8	246.1
Financial assets:							
Demand deposits and currency	5.8	5.9	5.7	5.9	5.9	6.0	6.0
Time and savings deposits	3.0	3.3	3.5	3.7	4.0	4.3	4.8
Other financial assets ^c	9.1	9.2	9.4	9.6	9.8	9.9	10.1
Total financial assets	17.9	18.4	18.6	19.2	19.7	20.2	20.9
Total assets	204.3	213.2	221.4	229.6	237.5	254.0	267.0
Debt claims:							
Real estate secured loan funds ^d	12.8	13.9	15.2	16.8	18.9	21.2	23.3
Non-real estate secured loan funds ^e	12.0	12.9	14.5	16.2	17.2	19.0	21.2
CCC nonrecourse loan funds	1.4	1.9	2.0	1.9	1.5	1.4	1.2
Total debt claims on farm assets	26.2	28.7	31.7	34.9	37.6	41.6	45.7
Equity claims on farm assets	178.1	184.5	189.7	194.7	199.9	212.4	221.3
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Debt to asset ratio	12.8	13.5	14.3	15.2	15.8	16.5	17.1
Debt to equity ratio	14.8	15.6	16.7	18.0	18.8	19.6	20.7
	1968	1969	1970	1971	1972	1973	1974 ^a
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Physical assets:							
Real estate assets	191.9	200.8	206.1	214.1	230.5	258.7	309.7
Non-real estate assets ^b	66.8	71.2	76.2	78.5	85.7	99.0	121.5
Total physical assets	258.7	272.0	282.3	292.6	316.2	357.7	431.2
Financial assets:							
Demand deposited and currency	6.1	6.3	6.4	6.5	6.6	6.9	7.3
Time and savings deposits	4.8	5.2	5.5	5.9	6.5	7.1	7.9
Other financial assets ^c	10.3	10.5	10.9	11.2	11.8	12.3	13.4
Total financial assets	21.2	22.0	22.8	23.6	24.9	26.3	28.6
Total assets	279.9	294.0	305.1	316.2	341.1	384.0	459.8
Debt claims:							
Real estate secured loan funds ^d	25.5	27.1	28.4	29.5	31.3	34.5	39.5
Non-real estate secured loan funds ^e	23.5	24.8	27.0	29.7	33.3	37.4	41.7
CCC nonrecourse loan funds	1.4	2.7	2.7	1.9	2.3	1.8	.5
Total debt claims on farm assets	50.4	54.6	58.1	61.1	66.9	73.7	81.7
Equity claims on farm assets	229.5	239.4	247.0	255.1	274.2	310.3	378.1
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Debt to asset ratio	18.0	18.6	19.0	19.3	19.6	19.2	17.8
Debt to equity ratio	22.0	22.8	23.5	24.0	24.4	23.8	21.6

^aPreliminary estimate. ^bIncludes machinery and motor vehicles, household furnishings and equipment, and inventories of crops (including crops held as security for CCC loans) and livestock. ^cU.S. savings bonds and investments in farmer cooperatives; does not include financial claims on specific

nonfarm assets such as holdings of common stocks. ^dLoan funds outstanding secured by farm real estate assets. ^eLoan funds outstanding not secured by farm real estate assets. Does not include CCC nonrecourse loans outstanding.

OUTLOOK FOR 1974

Key Economic Variables

Farm output, prices paid and received by farmers, exports of farm products, and interest rates charged on new farm loans are expected to be the major factors influencing the financial outlook for farmers in 1974.

Crop output is expected to set another new record as farmers expand planted acreages. This outlook is based upon the crucial assumption that fuel and fertilizer requirements for production will be available. Livestock production is also expected to show moderate expansion. Thus, quantities of farm output marketed commercially will probably be higher than 1973 levels. Based upon the assumption that foreign export markets for U.S. farm production will continue strong in 1974, crop prices will likely average higher than 1973 despite increased quantities marketed. General expectations are that prices received for livestock in 1974 will average near the record levels of 1973.

Production expenses are expected to rise as a result of the higher prices and the increased physical quantities of production inputs utilized in 1974. Substantial increases in prices paid for fertilizer, fuel, and farm machinery are expected to increase production expenses.

Realized net farm income in 1974 is expected to reach \$24 billion in 1974. While this represents a decline from the record income of over \$26 billion in 1973, it will be the second highest on record.

Interest rates on farm loans are now expected to moderate somewhat in 1974 from the highs experienced in the second half of 1973. Interest rates of new real estate secured loans may average 8.0 percent during 1974 while interest rates on loans not secured by real estate assets are expected to average 8.5 percent.

Cash Flows of Capital and Stocks of Assets

Tables 9 and 10 present a forecast of the financial structure and the financing of purchases and production of additional capital in 1974.⁴

Annual capital formation and uses of funds to purchase real estate assets from discontinuing proprietors in 1974 is forecast at \$25 billion, or some 16 percent greater than 1973 if the above assumptions are realized. The value of machinery and motor vehicle purchases in 1974 is expected to increase about one-fourth assuming adequate supplies of machinery are available.

⁴This forecast is provided by the Aggregative Income and Wealth Simulator for the farm sector developed by John B. Penson, Jr., and C. B. Baker. A description of the properties of the Aggregative Income and Wealth Simulator and tests of its forecasting ability are available upon request.

Purchases of real estate assets from discontinuing proprietors and uses of funds associated with these transfers are expected to increase still further in 1974, totaling nearly \$13 billion. This represents an increase of nearly one fifth greater than this use of funds a year earlier, caused by continued increases in real estate values and a slight increase in the transfer rate.

The value of real estate assets is forecast to reach \$355 billion or 15 percent higher than the value a year earlier. While this is less than the 20 percent increase in 1973, it reflects the influence that a continued high rate of return on equity claims on farm assets as compared to nonfarm assets, coupled with rising prices in general and moderating interest rates in 1974, will have on the current market value of farm real estate assets.

The value of nonreal estate assets is forecast at \$134.1 billion, a tenth higher than a year earlier. Four-fifths of this increase or \$10 billion may reflect price increases.

Financial assets held by farmers are forecast to total \$32 billion on January 1, 1975, or almost 13 percent more than those assets held 1 year earlier.

Sources of Financing

Loan funds outstanding in the farm sector at the end of 1974 are forecast to reach \$93.6 billion or approximately 14 percent greater than at the beginning of the year. This also represents an increase of almost 150 percent over the volume of loan funds outstanding 10 years ago. The cost of borrowing will remain relatively high in comparison with the 1971-72 period. However, the supply of loan funds from the traditional lenders serving farmers is expected to be adequate to meet demand.

The volume of loan funds outstanding at the end of 1974 and net flow during the year are forecast to be \$45.5 billion and \$6 billion, respectively. This stock and corresponding flow of loan funds represent increases of 15 and 20 percent, respectively, over their levels of a year ago and are influenced by the increases noted in the cash uses of funds to improve real estate assets and to purchase real estate assets from discontinuing proprietors. The net flow of real estate secured loan funds is forecast to finance approximately 24 percent of the total cash flow of capital in the farm sector in 1974.

The volume of loan funds outstanding not secured by farm real estate on January 1, 1975, and the corresponding net flow of loan funds in 1974 are forecast to total \$47.6 billion and \$5.9 billion, respectively. These increases of 14 percent and 29 percent, respectively, are the result of a record high level of capital formation in nonreal estate assets in the farm sector. Of particular importance is the 24-

Table 9.—Balance sheet for the farm sector, January 1, 1965 and 1974 and forecast for January 1, 1975

Item	1965	1974	1975 ^a	Percentage change	
				1965 to 1975	1974 to 1975
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Percent</i>	<i>Percent</i>
Physical assets:					
Real estate assets	160.9	309.7	354.5	120.3	14.5
Non-real estate assets ^b	56.9	121.5	134.1	135.7	10.4
Total physical assets	217.8	431.2	488.6	124.3	13.3
Financial assets:					
Demand deposits and currency	5.9	7.3	8.4	42.4	15.1
Time and savings deposits	4.0	7.9	9.0	125.0	13.9
Other financial assets ^c	9.8	13.4	14.9	52.0	11.2
Total financial assets	19.7	28.6	32.3	64.0	12.9
Total assets	237.5	459.8	520.9	119.3	13.3
Debt claims:					
Real estate secured loan funds ^d	18.9	39.5	45.5	140.7	15.2
Non-real estate secured loan funds ^e	17.2	41.7	47.6	176.7	14.1
CCC nonrecourse loan funds	1.5	.5	.5	-66.7	0.0
Total debt claims on farm assets	37.6	81.7	93.6	148.9	14.6
Equity claims on farm assets	199.9	378.1	427.3	114.1	113.8
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Debt to asset ratio	15.8	17.8	18.0	13.9	1.1
Debt to equity ratio	18.8	21.6	21.9	16.5	1.4

^aForecast by the AIW simulator. This forecast differs from that present in AFO-13 due to: (1) changes in assumptions regarding prices and inflation in 1974, (2) higher year-end values for specific assets and debts in 1973, and (3) a re-estimation of specific coefficients in the AIW simulator to reflect developments in 1971-73. ^bIncludes machinery and motor vehicles, household furnishings and equipment, and inventories of crops (including crops held as security for CCC loans) and

livestock. ^cU.S. savings bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holdings of common stock as data on these claims are not available. ^dLoan funds outstanding secured by farm real estate assets. ^eLoan funds outstanding not secured by farm real estate assets. Does not include CCC nonrecourse loans.

percent increase over 1973 levels in the uses of funds to purchase farm machinery and motor vehicles in 1974. The net flow of loan funds secured by real estate assets is forecast to finance approximately 23 percent of the total cash flow of capital in the farm sector in 1974.

Farm loan funds at banks and PCA's will be available in 1974 at interest rates expected to be below the levels reached at the end of 1973. Deposits in rural banks have been swelled by the exceptional gains in farm incomes, and PCA's rates may ease a bit because of expected lower short term security yields on the major money markets.

As in 1973, the leveling or declines in loan funds provided by noninstitutional lenders (merchants and dealers, individuals, etc.) will result in a greater collective market share for the institutional lenders—banks, PCA's and the FHA.

Federal land banks will probably have little difficulty in securing funds from the sale of debentures on money markets. Life insurance companies will likely receive substantial increases in repayments on both mortgage and policy loans, and

perhaps a larger share of their total portfolio of farm loans will become more attractive relative to nonfarm lending and investment.

Commercial bank lending is expected to increase in line with the growth in their deposits. However, the distribution of bank lending among real estate secured loans and loans not secured by farm real estate may shift more toward the latter as production expenditures and machinery purchases increase.

As part of the Flood Disaster Production Act of 1973, section 207 contains a provision which amends the National Bank Act to make it more feasible for banks in rural areas to pursue a joint effort of organizing an affiliated agricultural credit corporation. Unless the corporation is at least 80 percent owned, investment is limited to not more than 20 percent of the bank's unimpaired capital and surplus.

Such a corporation would provide access to funding from the central money markets by discounting its agricultural loan paper with the Federal Intermediate Credit Banks or by selling securities through other sources. The greatest impact of such

Table 10.—Financing annual capital formation and real estate purchases in the farm sector, 1964, and 1973 and forecast for 1974

Item	1964	1973	1974 ^a	Percentage change	
				1964 to 1974	1973 to 1974
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Percent</i>	<i>Percent</i>
Uses of funds for:					
Capital improvements to real estate	1.23	1.77	1.88	52.8	6.2
Purchases of machinery and motor vehicles	3.70	6.56	8.14	77.3	24.1
Net additions to household furnishings	-.29	.98	.65	n.a.	-33.7
Net additions to farm inventories	-.82	1.35	1.10	n.a.	-18.5
Net additions to cash balances	.20	.30	.57	185.0	90.0
Annual capital formation	4.02	10.96	12.34	206.9	12.6
Purchases of real estate assets from discontinuing proprietors	3.87	10.64	12.66	227.1	19.0
Total cash flow of capital	7.89	21.60	25.00	216.9	15.7
Sources of funds used to finance total cash flows of capital:					
Cash flow of income and savings ^b	4.79	12.10	13.20	175.6	9.1
Net flow of loan funds:					
Real estate secured loan funds ^c	2.10	5.00	6.00	185.7	20.0
Non-real estate secured loan funds ^d	1.00	4.40	5.80	480.0	28.9
Total cash flow of funds used	7.89	21.60	25.00	216.9	15.7
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Percentage of total cash flow of capital financed by:					
Cash flow of income and savings ^b	60.71	56.48	52.80	-13.0	-6.5
Net flow of loan funds:					
Real estate secured loan funds ^c	26.62	23.15	24.00	-9.8	3.7
Non-real estate secured loan funds ^d	12.67	20.37	23.20	83.1	13.9
Total cash flow of funds used	100.00	100.0	100.0	N.A.	N.A.

^aForecast by the AIW simulator. This forecast differs from that presented in AFO-13 in Dec., 1973 due to: (1) changes in assumptions regarding prices and inflation in 1974, (2) higher year-end values for specific assets and debts in 1973, and (3) a re-estimation of specific coefficients in the AIW simulator to re-

flect developments in 1971-73. ^bFrom farm and off-farm sources including income transfers from nonfarm landlords. ^cLoan funds secured by farm real estate assets. ^dLoan funds not secured by farm real estate assets; does not include CCC nonrecourse loans.

legislation would be in areas where the financial needs of some large volume borrowers cannot be met by smaller banks. This could enhance the supply of farm capital to areas where some rural bank customers are limited by local deposits and conventional lending arrangements.

The use of cash income and savings to finance annual capital formation and purchase real estate assets from discontinuing proprietors is expected to reach \$13.2 billion in 1974, financing a little over one-half of the total. As seen in table 7 and figure 6 earlier, this percentage would represent a new low in the relative percentage of capital formation and real estate transfers financed by internal funds. This decline in the relative use of income and savings, however, represents a continuation of the downward trend evidenced over the 1960-73 period and earlier in the farm sector, and demonstrates the farmers' increasing reliance upon external sources of funds.

The farmer's equity position is expected to be nearly as good in 1974 as it was in 1973. However, both the debt to asset and debt to equity ratios are forecast to increase slightly. Nevertheless, the volume of debt claims on farm assets is still relatively small despite the increasing capital requirements associated with farm production. Equity claims by farmers and nonfarm investors still represent the largest claim on farm assets.

The ratio of net income from farm sources to total loan funds outstanding at the end of 1974 is forecast to be 23.4 percent. This represents a decline from the ratio at the end of 1973 of about 8 percentage points but only 4 points below 1972. While the ratio would be the lowest ever recorded over the 1960-74 period, farmers still should have little difficulty in repaying their obligations as planned in 1974 with net farm earnings.

REGIONAL SITUATION AND OUTLOOK

The following regional summaries are based on reports made in late 1973 by correspondents mentioned in the acknowledgment on page 2, and on other reports and statistical data.

NORTHEAST

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	3,802	4,835	27.2
Crops	1,106	1,486	34.4
Livestock and livestock products	2,696	3,349	24.2
Farm real estate debt, Jan. 1	2,038	2,328	14.2
Non-real estate farm loans held by banks, PCA's, FICB, and FHA, July 1	1,092	1,289	18.0
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	174	215	23.6



Outlook for 1974

With prices of milk at the start of the year about 30 percent higher than a year earlier, and potato prices up by more than 50 percent, farmers in the Northeastern States seem likely to experience another favorable year. Reports indicated that debt carryovers had been reduced and farmers' financial condition generally had been improved. Thus, it appeared that many farmers in the region would easily qualify for loans to expand and improve their farming operations.

The institutional lenders are expected to be able to provide an increased volume of credits in the year for many of the region's borrowers. Credits provided by or through the Farmers Home Administration will be available for farm operators who cannot be served adequately by other lenders. In New England, as in other regions, the FHA programs have been modified and broadened to more fully utilize private credit sources in meeting the credit needs of the operators with smaller equities.

Obtaining fuel and fertilizer is expected to be a manageable problem in 1974. Costs are expected to be higher, although some easing of feed costs is in prospect. Generally farm costs do not appear excessive relative to probable returns from farming.

1973 Financial Condition

Production of corn and hay—the region's major farm commodities—was larger in 1973 than in 1972. The effects of the hurricane and flood of the previous year had been overcome and growing conditions were improved. Improved feed supplies contributed to larger receipts from milk, and prices rose strongly after midyear. Potato acreage and yields did not fully recover, but prices were much higher. One reporter commented that the broiler industry made money and passed more to growers under contract.

Cash receipts of all farm products were 27 percent over 1972, a greater increase than the 25 percent in farm costs. Net incomes were at new record levels by a substantial margin.

Credit conditions were reported to be strongly improved during the year. One lender indicated many loans were repaid ahead of schedule. Land prices jumped a fourth, greatly increasing the equities of land owners. While advancing costs enlarged cash needs of farmers, and their borrowings increased, reporters indicated that foreclosures were very low, and debts that had been mounting in previous years were frequently reduced.

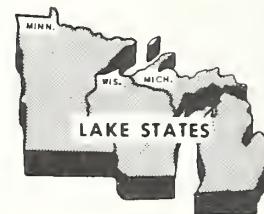
Interest rates rose sharply in the area, reflecting in part proximity to urban areas and the Nation's

money markets. One reporter quoted interest rates of 11 percent or more but rates of most institutions were

lower. Land bank farm real estate loans were from 7½ to 8 percent and PCA loans about 8½-9½ percent.

LAKE STATES

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	5,254	7,344	39.8
Crops	1,517	2,679	76.6
Livestock	3,737	4,665	24.8
Farm real estate debt, Jan. 1	3,093	3,422	10.6
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	2,105	2,301	9.3
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967-100)	143	175	22.3



Outlook for 1974

Gross farm income of Lake State farmers in 1974 probably will be near that of 1973, but net income may be somewhat lower due to higher costs of production. Increased grain and fruit crop production with high prices for livestock and livestock products should sustain high farm income in the region.

Lake State farmers are expected to plant somewhat larger acreages of corn and soybeans in 1974 than last year, and wheat production should be up sharply due to increased fall and spring plantings. Improved milk-feed price ratios may slow the rate of decline in milk cow and dairymen numbers. Breeding hog numbers and cattle on feed at the beginning of 1974 did not indicate expanded meat animal production.

Adequate farm credit is expected to be available for farmers willing and able to pay high rates of interest. Farm real estate prices are expected to continue upward in 1974, but probably at a slower rate than in 1973.

Slowdowns in the automotive and energy-related industries could affect off-farm employment, an important source to many part-time Lake State farmers.

1973 Financial Conditions

Most Lake State farmers were reported to be in better financial condition at the end of 1973 than a year earlier. Total receipts were 40 percent above 1972, with cash receipts up 25 percent for farm marketings of livestock and livestock products and up 77 percent for crops. High grain prices boosted incomes of cash grain producers while high feed costs put pressure on net income of livestock producers and

dairymen who purchased feeds. Total farm production expenses of Lake State farmers were approximately one-fourth greater in 1973 than in 1972.

Due to unfavorable weather in Michigan, yields of grain crops, dry beans, and fruit crops were lower in 1973 than in 1972. However, the higher prices received in 1973 resulted in greater total receipts. But extreme variations were reported in fruit crop income among crops, areas, and individual producers in Michigan.

In the important dairy industry of Wisconsin and other Lake States, dairy farmers' feed costs increased rapidly earlier in the year but the price of milk, their major product, did not rise like prices of most other farm products. However, later in the year, feed prices began to ease while milk prices increased, thus improving the milk-feed price ratio and dairy income somewhat.

Minnesota farmers were reported to be in better financial condition than in 1972 due to higher prices for livestock and crops, and increased crop production.

Farm real estate values in the Lake States rose rapidly in 1973. In November 1973, compared with a year earlier, average values per acre were up 21 percent in Minnesota, 23 percent in Wisconsin, and 24 percent in Michigan. For the Lake States as a whole the increase was approximately 22 percent. Major factors in the land value increases were operators' desires for farm enlargement and the availability of credit.

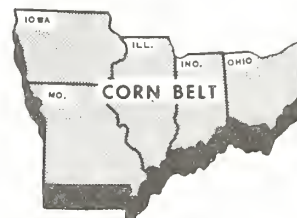
Lake State farm real estate debt had increased almost 11 percent in 1972 and probably rose more in 1973. The amount of non-real estate farm loans held

by banks, PCA's, FICB's, and FHA on July 1, 1973, was 9 percent greater than the year before. The large volume of farm borrowings apparently was due mainly to the desire of farmers to increase their capital investments and to enlarge their farm

businesses. Reports indicated that loan funds were adequate to meet farmers' needs, and that loan repayments were good with few delinquencies. Off-farm employment was reported favorable in most of 1973.

CORN BELT

	1972	1973	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, total	13,518	19,507	44.3
Crops	5,713	9,465	65.7
Livestock	7,805	10,042	28.7
Farm real estate debt, Jan. 1	5,994	6,506	8.5
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	4,550	5,177	13.8
	Index value	Index value	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	131	161	22.9



Outlook for 1974

Corn Belt gross farm income in 1974 probably will be relatively high due to substantial carryover and sales of 1973 grain crops, high prices of farm products, and increased crop acreages. Rising prices of farm inputs are expected to exert some downward pressure on net farm income. Fuel or fertilizer shortages would cause additional problems and uncertainties.

Corn Belt farmers are expected to plant about 10 percent more corn and slightly fewer soybeans in 1974 than they did in 1973. Wheat production should be up sharply in 1974, based on greatly expanded fall plantings in 1973. Numbers of hog breeding stocks were about the same, and cattle on feed were down somewhat at the beginning of 1974 in comparison with a year earlier. High grain prices may be reducing the attractiveness of more risky or labor-intensive livestock enterprises for many Corn Belt farmers.

The availability of farm credit is expected to be adequate at interest rates near those prevailing in late 1973. Farm real estate values in 1974 are expected to continue rising in response to high grain prices, but the rise may not be as rapid as in 1973. Off-farm income may be down somewhat if industrial slowdowns continue.

1973 Financial Conditions

For most Corn Belt farmers 1973 was much more prosperous than 1972, which also had been a

profitable year. The unusually high farm prosperity in 1973 was due to a combination of factors including record high farm product prices, high levels of production, and favorable harvesting conditions. Near ideal fall harvesting weather in much of the Corn Belt region facilitated rapid harvesting of the large, high-priced corn and soybean crops while reducing the need for artificial drying, thus reducing costs and saving scarce fuels.

Corn Belt farmers' total cash receipts from farm marketings were up 44 percent in 1973 from 1972. The increase was 66 percent for crop receipts and 29 percent for livestock. Many cash grain farmers and hog producers were in unusually strong financial positions but some cattle feeders experienced difficulties due to the high prices they had paid for feeder cattle and feed and subsequent drops in the market prices of their finished cattle.

Corn Belt farmers' total farm production expenses were almost one-third larger in 1973 because of higher prices paid for practically all major farm inputs. Especially sharp price increases were noted for feed, fertilizer, fuel, and farm machinery. Interest rates charged on new farm loans were also up significantly in the latter part of 1973, and were at or near legal limits in States with usury laws.

Shortages of some farm inputs developed in 1973. Fuel uncertainties and fertilizer shortages later in the year caused concern. Record demands for new farm machinery resulted in order backlogs and long waiting periods for many large machines. Sales prices of used farm machinery also were reportedly

high. Apparently many farmers wanted to invest part of their record incomes in large, new machinery for tax advantages, and to be able to handle expanding operations with a minimum of time and labor.

In addition to making record purchases of farm machinery, Corn Belt farmers increased their investments in other equipment such as on-farm grain storage facilities. With these added facilities, many farmers did not have to sell all of their grain at harvest, but instead could store more of it on the farm, holding out for higher prices or spreading sales over time for income tax purposes.

Corn Belt farm real estate prices increased at rapid rates during 1973. From November 1972 to November 1973, increases in average values of farm real estate per acre among the five Corn Belt States ranged from 15 percent in Missouri to 30 percent in Iowa. The increases were 28 percent in Indiana, 21 percent in Illinois, and 18 percent in Ohio. The average value per acre of Corn Belt farm real estate increased approximately 23 percent during this period. Major factors were record high grain prices, the desire of

many operators to enlarge their farms, and the availability of credit.

Corn Belt farm debt continued to increase during 1973 even though farm income was at a record high and loan repayment was good. Apparently many farmers were borrowing more due to higher costs of purchases and to attempts to increase their volume of business, partly by buying out other operators, usually smaller or retiring farmers. Higher income probably enabled some farmers to borrow more. The main sources of credit for farmland purchases continued to be individuals selling their farms on contract, and Federal land banks.

Non-real estate farm debt owed by Corn Belt farmers to institutional lenders as of July 1, 1973, was 14 percent larger than a year earlier. Such recent data are not available on this type of debt owed to nonreporting creditors like merchant-dealers. However, due to the development of a seller's market for some scarce farm inputs, farm trade credit probably was not as great as it might have been since free or low-priced credit was no longer required as a sales incentive.

APPALACHIAN

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	4,371	5,760	31.8
Crops	2,145	2,798	30.4
Livestock and livestock products	2,226	2,962	33.1
Farm real estate debt, Jan. 1	2,238	2,467	10.2
Non-real estate farm loans held by banks, PCA's, FICB's, and FHA, July 1	1,556	1,814	16.6
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	154	186	20.8



Outlook for 1974

Incomes for most farmers in the Appalachian region are expected to be slightly less favorable than the good 1973 situation. Production inputs, especially fertilizer and fuel, are likely to cost considerably more than in 1973. Prices received for most commodities are expected to decline from the record 1973 levels. Milk prices, however, are expected to increase. Net income of farmers in the region is expected to be down from 1973 levels, yet remain above the level recorded in 1972.

Expenditures on capital investments are expected to increase slightly in 1974. However, as one banker

stated, "Everything will hinge on the fuel situation. Continued shortage of fuel will curtail investment by farmers. On the other hand, investment could possibly increase in areas where farmers can switch from gasoline-powered to diesel-powered tractors." One likely exception to increased capital investment is the poultry industry which, because of tremendous expansion in the last 2 years, is not expected to undergo further expansion.

Demand for loan funds is expected to remain strong in 1974. Several banker respondents indicated that their loan policies in general would be tighter than in 1973. Merchant-dealer credit as a source of financing may well decline. Two reasons for the expected

decrease were given by correspondents: First, tight money is making it too costly for merchants to finance farmers; and, second, fertilizer dealers are expected to offer no financing in view of the tight supplies and high prices of fertilizer.

On balance, short-term interest rates on new farm loans may decline during 1974, but long-term rates may change little. One banker estimated that a decline of 1 percentage point in short-term rates might be conservative. Monetary policies of the Federal Reserve Board will be important in determining the level of interest rates.

1973 Financial Conditions

Yields on most major crops in the Appalachian region were improved over 1972. High yields combined with substantially higher product prices placed most Appalachian crop farmers in an excellent financial condition at the end of 1973. Hog and beef cattle producers also enjoyed very favorable prices throughout 1973. Dairy farmers achieved only moderate gains over 1972.

Farmers' investment in capital items increased considerably in response to the higher levels of income. Expenditures for family living were also up considerably. In addition, investment in certificates of deposit of 1 year or less were reported up substantially in 1973.

The importance of farm borrowings as a means of financing investment in 1973 did not decline from 1972. Established poultry producers in some areas did borrow less money. However, beef cattle farmers borrowed heavily because of the high prices of feed and feeder cattle. High feed costs also necessitated above-average borrowing by some dairymen. New machinery purchases by tobacco and large cotton farmers also spurred the demand for loan funds.

Interest rates on new loans increased from 1972

levels. Short-term loans exceeded those on long-term loans. Repayments were generally good and an accelerated rate of repayment was noted in the second half of the year. The number of loan foreclosures remained relatively constant throughout 1973.

The movement toward farm consolidation in 1973 appears to have increased in some areas of the Appalachian region. The most active sellers of farmland were reported to be farmers grossing under \$10,000 per year, those who are over 50 years of age, heavily indebted farmers, dairy farmers, and cotton producers on smaller farms. The price of farmland in the region went up some 20 percent over 1972 levels. Despite these rises in value, urban investor groups were reported to be by far the most active buyers of farmland. Retired people and large soybean and cotton farmers were also reported to be actively buying farmland.

Many farms in the Appalachian region are small and opportunities for off-farm employment are the main hope for improved family income. Consequently a good deal of emphasis in this region is focused on rural development. Most of the new rural development activities in 1973 occurred in the mountain areas of Virginia and North Carolina. The main thrust of development efforts has focused on attracting companies to locate in rural areas as well as on development of recreation-related services. Also, the Farmers Home Administration has been involved in providing financing for public services such as county water and disposal systems. The subordination policies and the new guaranteed loan program of the Farmers Home Administration are intended to encourage local lenders to expand their lending activities in rural areas. However, many banks are unable to use the program due to a lack of adequate funds to carry out such activities.

SOUTHEAST

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings total	4,563	5,828	27.7
Crops	2,481	2,890	16.5
Livestock and livestock products	2,082	2,938	41.1
Farm real estate debt, Jan. 1	2,355	2,703	14.8
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,109	1,328	19.7
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	176	224	27.3



Outlook for 1974

Cautious optimism perhaps best expresses the 1974 outlook for farmers in the Southeast region. Increased plantings of soybeans, cotton, rice and feed grains are expected, and increased sugar cane plantings for the 1974 season have already been accomplished. Uncertainty over fuel and fertilizer availability, prices paid on production items, and prices received for output are continual concerns for farmers in the region.

Livestock production is expected to expand slightly further in 1974. The beef cattle industry is expected to continue its expansion during 1974, although most of the expansion is expected to be in cow-calf production. Hog production is expected to remain virtually unchanged from 1973 levels. Broiler and egg production is expected to expand based upon egg numbers set for broilers and chicks hatched for layers.

Considerable expansion in investment is planned, especially by row crop farmers, as they gear up for expanded production. Farmers are expected to purchase more and larger items of farm machinery if available. Demand for farmland remains strong and land prices are expected to increase, but not as rapidly as they did in 1973. Many areas, especially Florida, indicate that land price increases reflect speculation and nonfarm uses.

Farm loans rose sharply in 1973, and substantial further increases are expected as farm production expands again in 1974. Short-term loan funds provided by commercial banks and production credit associations are expected to increase. Merchants and dealers—particularly fuel, fertilizer and machinery dealers—will likely give up some portion of their share of credit. Individuals are expected to supply an increasing amount of long-term credit because of the

attractiveness of rates compared with returns on investment alternatives.

Current yields on money market instruments suggest some reduction in short-term rates in 1974. Short-term rates are expected to be in closer alignment with long-term rates compared with the disparity that existed during the latter half of 1973. However, interest rates on long-term loans may increase in South Carolina because of a recent change in the usury law which now permits 9 percent interest to be charged on real estate loans.

1973 Financial Conditions

Reporters agreed that 1973 was an exceptionally good year for most farmers in the Southeast area. Increased production of crops coupled with considerably higher prices led to substantial increases in net farm income. Livestock growers did not fare as well because of the rapid rise in feed costs which erased some of the gain from higher prices received.

The rate of mechanization increased during the year, especially in the tobacco industry. Farm machinery sales in general were reported to be up 25 percent from 1972. High prices of farm products undoubtedly provided a major incentive for new investment, but as one reporter indicates, the anticipated production expansion may have been a more direct causal factor in increases in investment.

Tremendous increases in land values—over 25 percent in most areas of the Southeast region—were noted by all reporters. The most active purchasers of farmland were reported to be individuals who had recently sold land holdings near rapidly growing urban centers and were now moving further out to purchase large tracts of land at whatever the asking

price. Consolidation of small farms in the tobacco sector was reported to be more rapid than in 1972.

Loan demands for operating and for purchasing capital items were reported to be very strong in 1973. The supply of loan funds was sufficient to meet the expanded demand. However, the relative share of credit provided by various lenders appears to have changed during the year. Reports for some areas indicate that merchant-dealer credit was up from 1972 levels. Reporters in other areas indicate that dealer credit, especially from fertilizer and machinery dealers, declined substantially during the year. Reports from Florida indicate that in 1973

commercial banks put fewer funds in farm loans, preferring to put money in higher yielding consumer loans. Throughout the region there was an apparent increase in the demand for funds from the Farm Credit System. In the farm mortgage area, life insurance companies were reported to have been less active during 1973.

Although credit volume increased in 1973, repayments as a percentage of total loans were reported to be running well ahead of 1972. Loan foreclosures were practically nil during 1973. With some lags reported, interest rates on new loans rose as money market rates increased.

DELTA STATES

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings total	3,319	4,836	45.7
Crops	1,772	2,718	53.4
Livestock and livestock products	1,547	2,118	36.9
Farm real estate debt, Jan. 1	1,881	2,092	11.2
Non-real estate farm loans held by banks, PCA's FICB's, and FHA, July 1	1,052	1,191	13.2
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	143	164	14.7



Outlook for 1974

Reporters in the Delta States indicate that a substantial increase in cotton and rice acreage can be expected in 1974. Increases in cotton acreage will be stimulated by the ability to contract 1974 production for around 60 cents per pound. Increases in cotton and rice acreage in 1974 are expected to be at the expense of soybean acreage in some areas, particularly Arkansas. Livestock and poultry production is expected to remain at or above the 1973 level, despite high feed costs.

Reporters' price expectations for 1974 cotton, soybeans, and rice are very good, but somewhat below the high levels of 1973. Prices paid for production inputs, especially fuel, are expected to increase substantially. Purchased feed for cattle is expected to remain quite expensive in 1974.

Demand for farmland is expected to continue very strong in 1974, although the quantity offered for sale remains small. Land values in Arkansas are likely to continue to be influenced by retirement village development and movement from urban centers unless this is slowed by lack of fuel supplies. Reports

from Louisiana indicated a demand for farmland from foreign firms.

Because of favorable income levels in 1973, the demand for machinery and other capital items is expected to be very high in 1974. Prices of machinery and equipment are expected to be substantially above 1973 levels. Reporters indicate dealer stocks of machinery and equipment are very low or nonexistent.

Most farmers will have little difficulty in obtaining credit for production and investment purposes. However, there may be a relative decline in credit from machinery dealers who are reported to be requiring full payment before orders are placed. Demand for credit to finance operating costs is expected to be strong in 1974. Reporters expect short-term interest rates in 1974 to be at about the 1973 level. Farm mortgage interest rates are expected to increase slightly.

1973 Financial Conditions

Many Delta farmers achieved a higher net return in 1973 than in any previous year. High yields on crops

and exceptional prices received placed most crop farmers in an excellent financial condition at the end of 1973.

Cotton acreage in 1973 compared with 1972, was down 15 percent in Mississippi, 30 percent in Arkansas, and 20 percent in Louisiana. Yield per acre, however, was up approximately 6 percent throughout the region. More than 60 percent of the 1973 cotton crop was contracted at prices ranging from 28 to 32 cents per pound. Many small cotton farmers do not contract their production and thus received 60 to 80 cents per pound for their cotton.

Much of the reduction in cotton acreage was due to floods during the early spring months. To a great extent these acreages were planted to soybeans. Yields on soybeans were about equal to 1972 levels, although prices received were up substantially.

Rice production in Louisiana was about 8 percent higher in 1973 than in 1972, while an 18 percent increase was registered in Arkansas. Prices received averaged two to three times higher than in 1972. Income of rice farmers was exceptionally high for the year. Sugarcane production in Louisiana was down from 1972, but higher prices resulted in better farm income in 1973 than in 1972, which was also a good year.

Most producers of livestock and livestock products also had a favorable year in 1973. Egg producers enjoyed favorable returns despite the rise in feed costs over the year. Much of broiler production is

under contract and it was not until late in 1973 that growers began receiving higher returns per bird to offset higher costs of fuel, labor, and general overhead. Broiler producers were not seriously affected by higher feed costs since feed is normally supplied by the processor.

Beef cattle and hog producers received higher prices than in 1972. However, part of the gain was offset by higher feed costs and higher prices paid for feeder stock. Producers of feeder calves and feeder pigs received very favorable returns in 1973. Dairy farmers experienced rising milk prices, but an even sharper rise in cost of production reduced profits.

Farm investment in capital items in 1973 was substantially above year-earlier levels. Rising farm incomes and rising costs have tended to provide a good incentive for investment in capital goods. Borrowing to finance these investments increased, although the relative share provided by merchant-dealer sources was down. Interest rates on new loans, especially short-term rates, rose during the year. Sources of funds to finance both short and long term investments were considered adequate.

Land values in 1973 increased 10-20 percent throughout the Delta region. While the growth rate was very high, it was lower than the phenomenal rates recorded in other regions of the country. Reporters expressed little concern over the possibility of over-inflated land values.

SOUTHERN PLAINS

	1972	1973	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, total	5,313	7,597	43.0
Crops	1,667	3,093	85.5
Livestock and livestock products	3,646	4,504	23.5
Farm real estate loans held by reporting lenders July 1	2,861	3,255	13.8
Non-real estate farm loans held by banks, PCA's, and FHA, July 1	2,390	2,863	19.8
	Index value	Index value	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	144	170	18.1



Outlook for 1974

The financial positions of Southern Plains farmers in 1974 will be favorable although net incomes may be less than in 1973. Favorable prices will encourage an increase in planted acreages of most crops. For cotton and grain sorghum, January planting intentions were up by 7 and 5 percent, respectively.

Demand for borrowed funds will continue strong during the year. Farmers in this area historically borrow to finance a high percentage of purchased inputs, and prices on these items will probably be up some 30 to 40 percent in 1974. Financial institutions are expected to encourage farmers to use their increased savings and reserves, but net borrowings will likely be up from 1973 levels. In addition, the

amount of borrowed funds needed in cotton, wheat, and feed grain areas will likely be up even more at midyear due to the elimination of Government acreage diversion and price support payments for the current year. In the past these payments were normally received by farmers shortly after July 1 and helped to offset the seasonal impact of deposit drawdowns and heavy loan demands prior to harvest. In general, however, the supply of loanable funds should be adequate to meet farmers' needs.

Increasing use of forward price contracting (advanced sales agreements) has been reported by producers of beef cattle, grain, and particularly cotton. Financial institutions reportedly have encouraged the use of these contracts.

There is concern among farmers regarding the availability of fuel and fertilizer supplies and the rapidly rising prices of most inputs. There is also concern that principal and interest payments on longer term farm debts being incurred for land and equipment might be troublesome if farm prices decline. Considerable uncertainty also exists in the cattle feeding industry, and some banks have increased margin requirements on cattle loans. The current level of feeder calf prices and feeding costs offers little incentive to place cattle on feed unless fat cattle prices hold at least near their present levels. The lower level of placements on feed during the latter part of 1973 and early 1974 and the backup of feeder cattle from the 1972 calf crop, together with a larger 1973 crop will mean more cattle available for feedlot placements in 1974. This could lead to a sizable increase in fed beef production in the second half of the year, and an accompanying decline in prices for feeder calves and fat cattle unless consumer demand strengthens.

Winter wheat is being utilized less in 1974 for pasture than in previous years. Historically, a large proportion of winter wheat has been grazed out primarily because utilization for pasture offered greater returns on much of the marginal small grain land. This year more stocker cattle will be moved off wheat fields between March 1-15 so that a grain crop can be harvested. Prospects for wheat prices are quite good. And even on wheat pastures where cattle would normally have been removed by March 15, numbers of cattle on wheat pastures are fewer because of some farmers' concern over possible decreases in grain yields. Also, moisture conditions for wheat during late February were less than adequate over a wide area of west Texas and parts of Oklahoma.

1973 Financial Conditions

Financial conditions in Texas and Oklahoma were substantially improved in 1973 over 1972. Gross incomes were up 85 percent for crops and 24 percent for livestock while net income from all sources was

estimated to be at record levels—up at least one-third from 1972. Despite increases in production expenses, including hired labor, interest charges, purchased services, and other farm inputs, returns were greater because yields of crops and forage were above average and farm product prices for both crops and livestock were higher.

Two important crops, cotton and grain sorghum, showed substantial increases in production and yields per acre. Although upland cotton acreage was up only 4 percent from 1972, production was the largest since 1949—up 12 percent—and yields and per acre were at record levels. Grain sorghum production was up 30 percent in Texas and 13 percent in Oklahoma due to an overall one-fourth increase in acreage and record average yields.

Beef cattle production and beef cattle prices were favorable through much of 1973. However, beginning in September 1973, following the suspension of price ceilings on retail beef cuts, live cattle prices decreased substantially. Net returns on feedlot operations were favorable from January through mid-September. However, feedlot operators with cattle sales after mid-September through December took substantial losses due to unfavorable feeder calf-fat cattle price margins and high feed costs.

Unfavorable weather caused problems in some areas in the Southern Plains. Adjacent to the Gulf of Mexico, excessive moisture, including tropical storm Delia, contributed to production problems. Although rice acreage was up some 17 percent in 1973, yields were down 21 percent and total rice production was down 7 percent. However, rice prices were at record levels and net income was up for the area. Also, during the earlier winter months of 1973, cattle producers in Oklahoma and west Texas experienced above-average losses in their cattle operations due to the damp cold weather. Winter wheat plantings were also delayed in Oklahoma because of excessive moisture.

Investment in capital items was up substantially in 1973 over 1972. Demand for capital items was heavy for both new and used equipment and dealer's stocks of equipment were low in late 1973. Delivery of major equipment items was several months behind schedule. Demand for loans funds was strong in the area but capital was adequate to meet the borrowing needs of farmers. Non-real estate debt by institutional lenders at midyear 1973 was up 14 percent over year-earlier levels. Demand for land was strong and land prices were up 18 percent from the year before. Nonfarm activities have played an important role in land market developments, but as one reporter indicated from the Texas area, "This is the first time in many years that the land market is being influenced significantly by buyers interested primarily in agricultural production."

An exception to the generally adequate availability of funds in 1973 was experienced by large commercial

feedlot operators and, in some cases, by other large operators whose loan requests exceeded the loan limits of smaller banks. A doubling of loan requirements to handle the same volume of cattle was not uncommon during the period of rapidly rising

feeder calf prices from January-August 1973. Loan-to-deposit ratios at the larger banks were particularly tight during July and August, and some banks in feedlot areas asked borrowers to stay within established lines of credit.

NORTHERN PLAINS

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	7,608	11,323	48.8
Crops	2,459	4,905	99.5
Livestock and livestock products	5,149	6,418	24.6
Farm real estate debt, Jan. 1	2,723	2,935	7.8
Non-real estate farm loans held by banks, PCA's, FICB's, and FHA, July 1	3,336	3,863	15.8
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	131	160	22.1



Outlook for 1974

The quantity of loan funds needed by farmers in Kansas, Nebraska, and the Dakota's will continue to increase during 1974. Favorable net income and availability of investment credit and flexibility with respect to accelerated depreciation deduction on major capital purchases will stimulate demand for capital funds. More equity funds in the form of farmers' savings and reserves will be available in 1974 but these are not expected to be sufficient to meet additional funds needed for higher per acre production expenses, more acreage farmed, and added purchases of land and equipment items. Reports from financial institutions in the region indicate that the supply of loanable funds will be adequate for farmer's needs in 1974.

Although farmers are concerned about potential fuel and fertilizer shortages, their planting intentions are to bring into production all available acres. Winter wheat acreage is up above 1973 levels. Moisture conditions were good in early 1974 and crop prospects are favorable. Livestock numbers and production in the area should continue upward, but the rate of acceleration in prices will likely be slower than in 1973.

1973 Financial Conditions

Financial conditions in the Northern Plains were quite favorable in 1973. Gross income from crops was almost double that of 1972 and livestock receipts were estimated to be up by one-fourth. Farm production

expenses were up nearly one-third in 1973, but higher gross receipts still lifted net income substantially. Some problem areas did exist. An area of five or six counties north of Aberdeen, South Dakota, did experience drought conditions and a 50-percent drop in yields of small grains, hay, and other crops. Yields were also down slightly for wheat, corn, and grain sorghums in Nebraska, but crop acres planted and total production were above 1972 levels and prices were quite favorable. Low profit margin or losses were being reported on feedlot cattle operations in late 1973. However, net returns of cattle feeders were reported quite favorable prior to mid-September.

The trend to larger tractors and machinery continued during 1973 with acceleration in demand for equipment items. Sales by implement and truck dealers were well above 1972 levels and reports from each State indicated a common problem of delays in new order deliveries of up to 6 months or more. Temporary shortages of other items such as fencing wire, fence posts, and even consumer goods such as washers, driers, and freezers were also common in some areas.

Based on response from bankers, PCA's, and other lending institutions, loan funds were readily available to meet farmers' production expenses and capital expenditures. Interest rates were slightly above those of 1972. Merchants and dealers were less important as a source of financing in the area. With most equipment and other input items in short supply, dealers found less need to furnish financing to be competitive.

Demand for land was strong in the area. Most land

purchases appeared to be for additions to existing tracts for farm enlargements. Land values increased 22 percent from November 1972 to November 1973. One reporter indicated that younger farmers were committing themselves to long-term real estate loans while older farmers were paying off loans or reducing their real estate debts. Non-real estate debt held by PCA's, FICB's, and FHA was up by 16 percent at

midyear over year-earlier levels. The greater level of non-real estate debt reflected to some extent producers' needs to finance a larger carryover of crop inventories. Some reporters indicated that increased debts for land and machinery purchases could be a problem for farmers if product prices decreased substantially below 1973 levels or if weather conditions are unfavorable.

MOUNTAIN REGION

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings total	5,371	7,023	30.8
Crops	1,540	2,342	52.1
Livestock and livestock products	3,831	4,681	22.2
Farm real estate debt, Jan. 1	2,989	3,234	8.2
Non-real estate farm loans held by banks, PCA's, FICB's, and FHA, July 1	2,265	2,563	13.2
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, Nov. 1 (Mar 1, 1967=100)	154	186	20.8



Outlook for 1974

The consensus of reporters was that even though 1974 will be a little off from 1973, it will still be another buoyant year income-wise for most producers in this region.

There is a widely held belief that production costs will, in general, increase more rapidly than cash receipts in 1974—a turnabout in events from 1973 for most producer groups. Feedlot operators, poultrymen, and dairymen were three groups that did not share in the financial healing process enjoyed by most producer groups in 1973 because of exceptionally sharp increases in feed costs. Some relief in feed costs from yearend highs is expected in 1974 as a result of expected increases in planned feed grain production. Protein and concentrate prices will likely decrease from year earlier levels since soybean supplies are not expected to be quite as tight as they were last year.

Milk and poultry prices will likely show upward movement, but beef price levels remain uncertain. If feeders cannot pass cost increases forward, they will have to attempt to purchase feeder calves and feed at lower prices.

Even though farmers are coming off a year of record high net incomes, demand for loan funds is expected to increase. This will result from several factors. More acres will be planted due to release of

set-aside land, per unit costs are expected to increase for most inputs, and producer optimism following 2 years of favorable incomes is strengthening demand for land for farm enlargement. Lenders expressed confidence that financing a larger loan volume would pose no problem. Interest rates are not expected to change materially from 1973 yearend rates, that is, from 8¼ to 9¼ percent for production type loans and from 7¼ to 8¾ for real estate loans.

As in other regions, general concern was expressed over the possible shortage of fuel, fertilizer, and, to a lesser extent, machinery needed to farm additional acres.

Several reporters mentioned the likelihood of a long-term cost-price squeeze starting this year. This is possible, they argued, because increased production could result in lower prices received, while inflation and the energy problems will push costs up.

1973 Financial Conditions

Most producer groups improved their financial situation during 1973. Delinquencies and foreclosures on loans were minimal. Cash receipts from farm marketings were up a little over 30 percent from the 1972 level, with crop receipts up over 50 percent and livestock and livestock products up more than 20 percent. Even though farm production expenses were up nearly 30 percent, this left a

considerable increase in net income over 1972. Farm real estate values increased over 20 percent, nearly 2½ times the rate of increase in farm real estate debt in this region. While most of the increases in farm real estate values are “paper profits,” they still provide the owner with increased equity on which to borrow for production and consumption items. Few reporters mentioned any abrupt changes in family expenditures patterns, so most of the increased income apparently was used in paying for major items such as tractors, machinery, structures, and in repaying debts and improving financial reserves.

Very unfavorable weather conditions in parts of a few States in 1973 resulted in poor crop yields and livestock production. Drought conditions in far western and north central Montana throughout the spring and summer months resulted in fair to poor grain yields and very poor pasture and range conditions. Blizzards in late winter and spring caused heavy livestock losses in Wyoming. High grain and livestock prices compensated for the drop in output in these areas, so the financial position of most operators in even these hard-hit areas was not jeopardized.

PACIFIC

	1972	1973	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, total	7,143	9,168	28.3
Crops	4,316	5,626	30.4
Livestock and livestock products	2,827	3,542	25.3
Farm real estate debt, Jan. 1	5,162	5,582	8.1
Non-real estate farm loans held by banks, PCA's, FICB's, and FHA, July 1	2,034	2,408	18.3
	Index value	Index value	
Index of average value per acre of farm real estate, Nov. 1 (Mar. 1, 1967=100)	124	140	12.9



Outlook for 1974

Another financially rewarding year is expected in the Pacific region for farmers in 1974. But net incomes will likely be off moderately from 1973, when agriculture in this region “never had it so good.”

Following a year when farm receipts increased at a much faster pace than farm costs, 1974 may be remembered as the beginning of a new cost-price squeeze period. Consumer resistance to high beef prices and only a slight letup in feed costs could result in but modest profits for feedlot operators this year. If feed costs and meat prices remain unfavorable to feedlot operators, feeder calf prices may continue their drop from August levels. Continued high prices for alfalfa hay and concentrates may result in more dairy cows going to slaughter rather than to other herds as some dairymen not able to cover even variable costs go out of business. Net income to crop producers is also likely to show some decline as costs increase at a faster rate than prices received.

A few reporters indicated that because of high wheat prices, additional grass seed and row crop land in the Willamette Valley of Oregon may be seeded to wheat this year. Last year “wheat acreage (in the

valley) was up 37 percent, output up almost 100 percent, and gross receipts from wheat were up 270 percent.” Further shifts away from high-risk vegetable crops to wheat can be expected in other irrigated areas in the Pacific region if prospects remain good for wheat prices, and a strong demand remains for small grain straw. (Current limitations on open-field burning and its projected banning make mechanical removal of excess straw almost a necessity for economical small grain production in this area.)

Loanable funds are expected to be in adequate supply and at interest rates similar to those in 1973. Diverse opinions about the level of demand for loans prevailed in this region. A few reporters indicated that loan demand may level off or even drop slightly because of high net incomes earned by farmers in this region last year and uncertainties stemming from the energy crisis. Most reporters, however, anticipated a further increase in loan demand to finance expansion and to meet current and anticipated higher input costs. As one reporter indicated, demand for loan funds remains strong even after a good year, since farmers view the near

future with optimism and are therefore more expansion-minded.

1973 Financial Conditions

The financial situation of nearly all producer groups is more favorable this year than last. Carryovers, delinquencies, and foreclosures are down, while bank balances, machinery and equipment purchases, and capital improvements are up. The 13-percent increase in farmland prices further strengthened the financial situation of landowners by providing them with additional equity. The trend in farmland price increases could slow, however, if prospective purchasers and/or lenders become concerned about the effect of the energy crisis on net earnings, and, in turn, repayment capability of farmland. The 13-percent increase in farmland prices was the lowest of any region. In large part, this was due to the low rate of increase in irrigated land values in California.

Crop receipts were up over 30 percent and livestock

receipts were up over 25 percent from 1972, primarily because of increases in prices received. The overall increase in farm receipts was just over 28 percent. Farm production expenses were also up about 28 percent. But because receipts were calculated from a higher base, farmers realized several hundred million dollars of additional net income over 1972's level.

Machinery and equipment purchases were up substantially in 1973 from the previous year. With record-high incomes, farmers were again strongly in the market to purchase new and more efficient equipment. Tax considerations provided another incentive for machinery and equipment purchases. That is, income taxes could be reduced by utilizing the 7 percent tax credit provision and higher depreciation base associated with these purchases.

Family spending patterns were reported to have remained relatively unchanged for 1973, even though incomes of farm families rose considerably.

Demand for funds grew at a hefty pace during 1973 as a result of expanded input usage and price increases for nearly all inputs.

ALASKA

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	4.6	4.5	-1.9
Farm real estate loans held by reporting lenders, Jan. 1	3.3	4.0	21.2
Non-real estate farm loans held by banks, PCA's, and FHA, July 1	3.0	2.2	-25.8

Note: The 1973 data are very tentative and subject to considerable revision. Data are not available for farm real estate prices.



ALASKA

Outlook for 1974

Alaskan farmers should improve their financial condition in 1974. Prices for farm products are expected to remain favorable to producers. The sharp increase in prices for hay and other farm-produced feedstuffs in the 48 States made Alaskan prices for the same commodities more competitive, thereby improving local marketing. Sales of milk, potatoes, and vegetables locally should improve if the fuel shortage increases costs or reduces cargo space for shipments. However, the fuel shortage can work both ways. If it gets serious enough to call for reduced farm machinery use and reduced electrical output, farm production could suffer.

Record hay and barley production in 1973 and good oat and silage crops will hold down the need for feed purchases early in 1974. Milk production, the State's

most valuable farm commodity, should maintain its position and even improve a little. Egg and hog production should show some slight growth.

Snowfall in the 1973-74 winter months has been exceptionally low in some important farming areas, especially in the Matanuska Valley. The lack of snow cover may cause soil to freeze to unusually greater depths and will cause a deficient moisture situation for spring and summer crops.

Little change is expected in the availability of farm loans which have been at about the same level for the last several years. Land prices vary considerably and urban expansion will likely cause the most upward pressure. The oil pipeline will likely have little pronounced influence on farming or farm income for the next few years, although related construction projects could offer opportunities for increased off-farm income for a few farm families.

1973 Financial Conditions

The financial conditions of most Alaskan farmers improved slightly in 1973. Production costs were up, but yields and prices of most commodities increased enough to offset the higher costs. Markets were good, due partially to less competition from outside producers.

Land for farming continued to increase in price. Pressure from urban developers, especially housing developers, pushed farmland prices upward at a more rapid rate, particularly in the Matanuska Valley area nearest Anchorage. There was no appreciable influence on farmland prices from the proposed oil pipeline except possibly in a few localized instances.

Farmers harvested record barley and hay crops in 1973 and the best oat crop since 1968. Potato acreage was down but higher prices and good yields put total value at a new high. Cattle production remained at about the same level as the last few years but hog

production declined. Milk production increased over a year earlier although the number of milk cows remained about the same. Some efficiencies in dairy operations may have been gained as several dairies were bought out or otherwise consolidated into larger units.

Vegetables other than potatoes are a small part of total farm production and receipts but are important to those few producers who tend to specialize in them. Although greenhouse operations are expensive, they nevertheless provide year-round employment and income for those who keep them going during the winter.

Farm loans were available from the usual sources. Housing loans increased in use. The Farmers Home Administration and State-sponsored loan programs are sources of loans available to farmers unable to obtain reasonable financing elsewhere. Interest rates on farm loans ranged from 4 percent to 11-12 percent, depending on the lender and the purpose of the loan.

HAWAII

	1972	1973	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	223.4	223.6	0.1
Crops	177.2	169.2	-4.5
Livestock and livestock products	46.2	54.4	17.8
Farm real estate loans held by reporting lenders, Jan. 1	22.8	41.7	83.0
Non-real estate farm loans held by banks, PCA's, and FHA July 1	11.4	10.4	-8.2

Data to be revised. Data not available for farm real estate prices.



HAWAII

Outlook for 1974

The outlook for Hawaiian farmers is more uncertain than usual due primarily to the fuel shortage. The marketing of fresh Hawaiian fruits to Japan and the U.S. mainland, could be sharply reduced if cargo space on airplanes and ships becomes more expensive and less available. Marketings of fresh flowers off the islands could also suffer.

Shortages of fuel to power the equipment necessary in growing, harvesting, and processing sugarcane and pineapple could put a crimp in those industries—the State's most important agricultural enterprises. Inter-island transportation might also be curtailed to a degree that produce would lose quality and value.

Milk and other livestock product output in Hawaii will find ready markets locally. Holding down feed costs will be a major concern of livestock producers.

Farmers' financial situation could weaken slightly, depending on their ability to obtain sufficient fuel to grow and ship their products. However, their financial condition is relatively good and most could probably weather a poor year without severe damage.

Production costs will likely increase in line with mainland costs. Loan demands will remain relatively strong with credit available.

1973 Financial Conditions

The financial condition of Hawaiian farmers in 1973 was slightly improved over 1972. There were variations according to the type of farm and kind of farm organization. The value of the sugar crop was up nearly one-fifth from 1972. The value of fresh and processed pineapple was down only slightly. The value of the papaya crop was up one-fourth while coffee and macadamia nut values were down one-

sixth. Receipts from milk and livestock were up substantially from 1972. Although total farm receipts were up, costs were also higher.

Many enterprises and farm firms which depend heavily on machinery, hired labor, and other purchased inputs experienced greater operating expenses than in 1972. However, most farmers using family labor and farm-produced inputs did not suffer a loss in earnings.

Savings and reserves of family farmers continued to rise and spending for family living rose.

Long-term loans secured by real estate increased dramatically during 1973, with most of the increase going for housing loans. Loans for operating

purposes did not change much during the year and may have actually declined. Repayment on loans was good with no widespread difficulties.

Prices for farmland varied sharply according to use and location. Sales of land were relatively few, however, since most of the privately owned land is held by large corporations or is part of large estates.

Loans for most purposes were available and capital for major purchases and expenses was obtainable either by borrowing on from farmers' own cash reserves. Interest rates on loans ranged mostly from 6 to 12 percent, depending on the lender and loan purpose. The lower interest rates were charged by State or federally sponsored lenders.

PUERTO RICO

(no data available)

Outlook for 1974

Improvement in the financial condition of most farm families might accelerate somewhat as a result of Government efforts to improve their lot, especially in housing. Costs of purchased inputs, including machinery necessary to mechanize production and harvesting, have just about reached economically prohibitive levels, according to reporters. Movement out of farming will continue, but possibly at a slower pace. The lure of higher income and the things it will buy will cause further crowding of industrial centers. Farm credit sources will remain mostly Government sponsored, especially for family farms. Housing loans will probably receive the continued attention of lenders. Because of tightening profit margins in sugarcane and coffee production, loan applications related to these farming enterprises will receive close scrutiny.

1973 Financial Conditions

Improvement in the financial condition of farm families in Puerto Rico may have gained a little momentum in 1973, but is it still necessary to look

back 2 or 3 years to perceive any appreciable change for the better. Where off-farm income is a part of family receipts, financial condition is usually stronger and financial progress is likely to be much more noticeable.

Despite labor shortages and droughts, coffee and tobacco production in 1973 rose with correspondingly higher values. Sugarcane output was reduced somewhat, continuing a downward trend begun several years ago. The percentage of sucrose content was slightly improved, however, and kept the total value of production from decreasing.

Livestock and milk production gained over that of the last several years. Increased purchasing power is creating greater demand for meat, poultry, and milk.

Loans were available to farmers of proven abilities. Increased Government subsidies and payments improved the borrowing basis for many farmers, thereby assuring the continuance of agriculture as an important Island industry.

The Farm Credit System, commercial banks, and Farmers Home Administration are important rural lenders in Puerto Rico. Housing loans have been the most prevalent type of loan made during the last several years.

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